A Happy New Year to All

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Forecast For 1949

By DONALD B. WOODWARD*
2nd Vice-President, Mutual Life Insurance Company of New York

Insurance executive supports prediction that at most only moderate decline in business will occur next year. Points out also low level of stock market prices as indicating no drastic downturn, and says business improved in majority of post-election years.

I have only one distinct qualification to talk to you on this subject. By this time, I am, I believe, the only economist of any sort, other than the following speaker on this program, who has not already made one or more public predictions about the business outlook. I have very fervently wished, as the time came to prepare this paper, that my record could remain unblemished.

Donald B. Woodward

Actually, it is surprising that so many people whose time is valu-

(Continued on page 34)

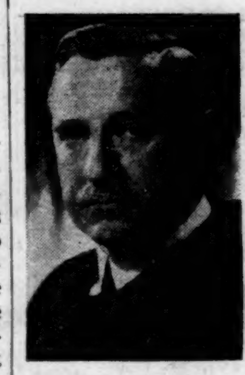
*An address by Mr. Woodward at the Annual Meeting of the American Statistical Association, Cleveland, Ohio, Dec. 29, 1948.

Management of the Public Debt

By WINTHROP W. ALDRICH*
Chairman, Board of Directors,
The Chase National Bank of the City of New York

Prominent banker discusses problems in debt management as: (1) debt reduction; (2) time structure of marketable debt; (3) the debt ownership; (4) interest rate in relation to debt structure; (5) credit control; and (6) agencies concerned in debt management. Holds various objectives involved cannot be completely reconciled and need further study. Recommends a national monetary commission.

In consequence of heavy borrowing requirements, the Federal debt during the war period increased by $219 billion, reaching a peak of $280 billion in February, 1946. The problems connected with borrowing these funds, difficult as they proved, were not nearly as complex as those involved in managing the debt thus created. Not only is the debt, in absolute amount, and in relation to national income, larger than ever before, but its influence upon economic behavior has become immensely more complicated.



W. W. Aldrich

Debt management is not a subject which can be defined and discussed neatly within a simple analytical framework. The theoretical aspects of debt management cut across the fields of taxation, money, credit, prices, interest rates and capital formation. In practice, the manner in which

(Continued on page 37)

*An address by Mr. Aldrich at a Joint Luncheon Session of the American Finance Association and the American Economic Association, Cleveland, O., Dec. 28, 1948.

Public Utility Stocks On Bargain Counter

By HAROLD H. YOUNG

Commenting on market decline in public utility stocks, Mr. Young ascribes it to election results and to fear of higher taxation. Points out utilities have prospered under 16 years of Democratic rule, and utilities are more sheltered against higher taxes than other businesses. Says there is little reason to expect new moves for municipal ownership, and regulating bodies are sympathetic to higher rates.

Over a period of years there have been wide variations in the sentiment toward public utility stocks. At times they have been in urgent demand and have been available only on high price-earnings ratios and at correspondingly low yields. At other times these shares have seemed to be almost friendless and have gone begging for buyers while offering handsome yields and selling at low ratios to their earnings. These exaggerated swings have not been concurrent with fluctuations in the fortunes of the utility industry but, rather, have reflected the rise and fall in investor enthusiasm and confidence.

Harold H. Young

It is necessary to go back only as far as the first part of 1946 to find the most recent period of extreme optimism. At that time the utility investor who found a common stock of a recognized com-

(Continued on page 31)

EDITORIAL

As We See It

What It Should Suggest to Us All

Ex-President Hoover is quite evidently rendering a real service to his country in surveying the governmental establishment with a view to suggesting ways and means of making it more effective and efficient. A serious minded and obviously hard working group of men, or groups of men, have gone through the labyrinth which is now the Government of the United States with patience and understanding. Now, one by one, the Executive Departments, the agencies, the bureaus, and the offices centering about the White House are being made the subjects of highly constructive criticism. We have no doubt at all that were the recommendations of Mr. Hoover and his fellow workers adopted in good faith and executed with intelligence and vigor, many hundreds of millions, possibly even billions of dollars, would be saved the taxpayers of the country who, far from getting less or poorer service, would find themselves much better served.

This is no new idea or project—this survey of the Federal Government for the purpose of improving its organization and its functioning. At least as long ago as the Taft Administration active steps were taken look-

(Continued on page 26)

Measuring Financial Sentiment in the Stock Market

By NICHOLAS MOLODOVSKY
White, Weld & Co.

Market analyst stresses importance of psychological factors in formation of stock prices. Describes indexes used by him for measuring financial sentiment. Analyzes intermediate market cycles by measing relative activity of transactions in "value" and "vision" stocks. Concludes best investment results will be obtained by balanced approach incorporating both value and market analysis.

It was, I believe, the great philosopher Leibniz who remarked that even the braying of a donkey reverberates throughout the universe. I do not know whether physicists will agree. But certainly little can happen in the world of economics and finance without making some repercussion in the stock market.


Nicholas Molodovsky

Despite the sensitivity of stock prices to an infinite variety of influences, a few factors stand out as being mainly responsible for the formation of their levels and trends.

The most important is the state of business. It affects corporate earnings, dividends and interest rates; they, in turn, determine stock values.

That a correlation between estimated stock values and **annual averages** of stock prices exists has been shown by statistical studies. For this reason central value is the foundation and the anchor of stability of sound investment policy. But this approach recognizes, and even implies, that actual market prices will circle around estimated values in swings of wide amplitudes.

What is true of values is equally true of the business conditions themselves on which values are based. The recent past has offered a particularly striking illustration of the extent of possible divergencies between fluctuations in business conditions and stock prices. During the last decade the curves of stock prices and of industrial production have been in gear for 20 months only. But during the rest of this period, i.e., during 100 months, they have followed opposite courses. This does not mean that business activity and earnings have lost their influence on security markets. Yet it does reveal that other forces also affect the movements of stocks and that they frequently prevail in the price formation process. Among them, none is more decisive than the state of financial sentiment.

How to Measure Financial Sentiment

This writer believes that it is possible to construct indexes for analyzing the ebbs and flows of investment confidence. To be significant, such indexes must be based on internal market relations which have themselves a foundation in the facts of economic life. Among them we may observe some recurrent and typical differences in the behavior of principal stock market factors.

Differential Price Factor

First, they reveal themselves in the relative action of prices. We know that stocks belonging to different price groups have widely different amplitudes of fluctuations. There are individual exceptions to this rule, of course. But for stocks combined into sufficiently wide groups, this differential price action has been tested and demonstrated in a number of scientific statistical studies. A review of their findings may be found in this writer's monograph, **New Tools for Stock Market Analysis.**

Since lower priced stocks have a wider amplitude of fluctuations than the higher priced, it follows that in a rising market they advance more rapidly; and when the market recedes, the decline of the cheaper stocks is more pronounced than that of their counterparts in a higher price bracket. Should we construct a ratio with low-priced stocks in the numerator and high-priced in the denominator, i.e.,

$$\text{Ratio} = \frac{\text{Low Price}}{\text{High Price}},$$

such a ratio would advance in a rising market and fall with a declining trend. This would be so because, in both cases, the swings of the low-priced equities would be relatively the greater.

Differential Quality Factor

The second aspect of differential market action of various classes of stocks finds its roots in the differences of intrinsic qualities. It stems from the simple economic truth that marginal enterprises benefit relatively more than their stronger rivals in periods of business improvement and suffer correspondingly more when business is becoming worse. For instance, during a phase of cyclical expansion, a marginal steel company may triple or quadruple its gross or double its share of the total steel business, with corresponding effects on its net earnings. But such cannot be the case for the large corporations dominating the industry in both good and bad times. They do not possess the same marginal leverage potential. Here again there will be individual exceptions, but the general rule will hold.

This quality differential finds its expression in the relative price action of the stocks representing the companies in question. So, for instance, when business is improving and the buyers of stocks believe that the betterment in underlying conditions will continue, the prices of lower quality equities will advance more rapidly than those of the higher grade stocks. As in the case of price differentials, we can translate this relationship into the form of a ratio in which the numerator will contain an index of lower quality stocks, while the denominator will be represented by an index of stocks of higher quality, i.e.,

$$\text{Ratio} = \frac{\text{Low Quality}}{\text{High Quality}}$$

A rising ratio will then indicate that the weaker stocks are receiving an increasingly higher valuation in terms of the stronger equities.

An Index of Confidence

Thus, in the light of this analysis, both price and quality differentials are dynamic factors of stock price behavior. This fact enables us to combine these essential characteristics within the framework of two separate indexes. One of these indexes consists of stocks that are lower both in price and quality. The other index contains only higher priced and higher quality stocks. These respective characteristics of the two indexes are, however, only relative to each other. No "cats and dogs," for instance, are included in the low priced index, but only representative stocks of established corporations with proven earning power. Their qualities simply are closer to the economic margin of the industries in question than those of their higher grade counterparts. And the index of higher quality stocks contains no equities of so high an investment rating as to make them impervious to market trends. Both indexes should be representative of general market movements. Nor do we draw a hard and fast price line for inclusion of stocks in either of the two indexes. To construct them, we merely select pairs of stocks in representative industries. These pairs have as wide differentials in both price and quality as can be secured, while preserving as close a similarity as possible in every respect between the stocks comprising each selected pair. And the number of such pairs representing each particular industry is proportionate to its importance in the economic life of the country and to the dollar value of its listed stocks.

As a result, if both price and quality differentials are embodied in two indexes which, otherwise, are completely homogeneous and fully comparable, they will reveal changes in the internal structure of the market. Once again, we construct a ratio. But this time, the numerator is represented by an index consisting of stocks which are lower both in price and quality than those composing the index standing in the denominator. As was shown above, the price differential alone should cause this index to rise when the market advances. And vice versa, in case of falling stock prices. Whenever such an action of the ratio fails to occur, it shows the contrary influence of the differential quality factor. Thus, if the ratio refuses to follow a rising trend of stock prices, it reveals that the outlook for marginal enterprises is unfavorable in the opinion of those who appraise this outlook in terms of their own willingness to back up their judgment with hard cash.

Such a ratio is called by this writer an Index of Confidence. Its action shows the true state of financial sentiment as distinguished from superficial optimism or pessimism of voiced opinions or of newspaper headlines. The presence or lack of confidence which

(Continued on page 22)

INDEX

Articles and News

Page

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The Investor and the Business Cycle

By JAMES J. QUINN and GILBERT M. HAAS
Investment Counsel, Mol & Co.

Investment analysts maintain tide of corporate profitability is ebbing, and common stock ownership should be confined to rising phase of profit cycle. Hence conclude portfolios should now be concentrated in highest quality fixed-income securities rather than in speculative equities.

It has frequently been said that the long-term investor who maintains an undisturbed position in the highest quality dividend-paying common stocks can afford to disregard cyclical changes in the over-all economy. This is a belief widely held by institutional as well as conservative individual investors. It rests on the conviction that because of a long-term growth factor, Blue Chip equities,

James J. Quinn   Gilbert M. Haas

over extended periods of time, not only provide a high current yield but result in large capital gains as well.

The record of the last 17 years, encompassing two major, and one minor, business cycles, does little to sustain this belief. On the contrary, it reveals that in terms of yield as well as risk, retention of common stocks on a permanent basis is the least satisfactory method for the employment of investment funds.

To demonstrate this fact, the accompanying table entitled "Relative Investor Experience" shows a hypothetical investment of $100 in each of four selected media: i.e., the Dow-Jones Industrial Average, a savings bank deposit, a U. S. Government bond, and a high-grade corporate bond. The year-end, 1930, was chosen as a starting point in order to use a level in the Dow-Jones Industrial Average no higher than that at the end of the year, 1947. In fact, the period used throws the benefit of doubt in favor of the Dow-Jones Industrial Average inasmuch as it registered a 10% advance from 165 to 181 during the 17-year interim.

The calculation for all four types of investment allows for both capital increment as well as accumulated dividends or interest in figuring yields. It is interesting to observe that the common stock investment would have produced a yield somewhat better than that provided by a savings bank deposit, an equivalent yield to that of a Government bond, and less than the yield provided by a high-grade corporate bond. More significant, however, is the fact that whereas the original principal remained intact at all times with respect to the savings bank deposit, and in all but one year for the Government and corporate bond investment, the original $100 of principal invested in common stocks could only have been realized in four out of the seventeen years covered.

The conclusions to be drawn from this experience are inescapable. The use of common stocks as an investment medium can only be justified so long as their employment coincides with the advancing phase of the business cycle.

To illustrate the result of common stock investment when correlated with major movements in the business cycle, the table "Static vs. Cyclical Method of Investment" is attached. In interpreting the table, it is, of course, a necessary first premise that the ability exists to measure, at least roughly, the over-all trend of the business cycle. For illustrative purposes, certain assumptions that we believe are justifiable have been made:

(1) That, while it is granted genius would be required to gauge the exact tops and bottoms of business cycles and the stock market, it is considered not unreasonable to expect that at 15% below and after reaching tops, and at 15% above and after reaching bottoms, the discerning investor could recognize a major change in the making and adjust his equity position accordingly.

(2) That the discerning investor would have the necessary patience to remain out of the stock market even during extended periods of cyclical decline.

Cyclical Patience Rewarded

In point of time, cyclical investing, because it does not contemplate forecasting of extremes, has involved anywhere from three months to a year of inaction following the change in the tide of the economy. Results for the resolute investor places a high reward on patience. As the table shows, in place of the 4.3% yield afforded by holding common stocks on a static or permanent basis, the cyclical method would have allowed a 38.3% yield during a period in which stocks would have been held in only nine out of the seventeen years covered. Had the funds been alternately employed in high-grade bonds while not in stocks, the yield would of course have been equivalently increased.

A further observation to be made in favor of the cyclical method of investment relates to taxes. Under the static method, yield is produced almost exclusively by current income which for those in the high income brackets is subject to heavy taxation, whereas the cyclical method achieves income almost exclusively through long-term capital gains. History proves that there is a secular trend toward higher

(Continued on page 25)

President's Economic Advisers Discuss Planned Economy, Free and Competitive Enterprise And Labor Relations

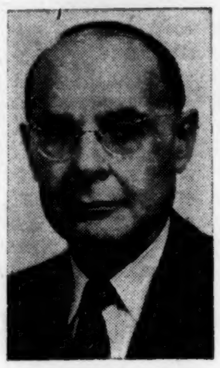
In Third Annual Report, though rejecting "planned economy," they maintain free enterprise does not bar government interference with business. See competitive enterprise in nation falling short of theoretical standard due to power and control of large corporations and urge further Congressional study toward creating competitive conditions and removing need for positive controls. Say perennial strikes threaten economic stability and recommend a joint conference of labor, management, and other groups to draw up standards in relation to wages and prices.

The Council of Economic Advisers, set up under the Employment Act of 1946, and comprising at present Edwin G. Nourse, Chairman; Leon H. Keyserling, Vice-Chairman, and John D. Clark, released its Third Annual Report on Dec. 24. The first part of the report reviews the organization and operation of the Council in 1948, but the second part dealing with the environment within which the Council operates discusses current situations relating to planned economy, competitive enterprise, labor conditions and economic and social objectives. Regarding these matters, the Council in its report states:

Unlike the Council's reports on the concrete facts and the analyses of the economic situation which are transmitted with the

Edwin G. Nourse

Leon H. Keyserling



Dr. John D. Clark

Economic Reports of the President to the Congress, the Annual Reports of the Council to the President attempt to set forth our thinking about the novel and difficult tasks assigned to us under the Employment Act of 1946. We believe that this serves a useful, democratic purpose by affording public officials, the business world, and the interested citizen an intimate glimpse into the working problems of a significant agency of their Government.

In our first Annual Report to the President we discussed the political philosophy of the Employment Act and the economic philosophy of sustained employment. In the second we treated of the meaning of maximum production and means of attaining it. In this third Report we seek to develop better understanding of the Council's role by choosing as our central theme the environment within which the Council operates.

The Employment Act of 1946 instituted a process of integrating national economic policies of the United States quite unlike anything in our past experience, in a setting very different from that of any effort for a similar purpose in other countries. Hence it has been necessary for the Council of Economic Advisers, the professional body established in the Executive Office by the Act, to sail uncharted seas. The dynamic changes of the postwar era have thrust upon the Council in its first two years problems quite unforeseen by the sponsors of the legislation and have developed situations which have tested the usefulness of the agency. We here present some of the more important lessons drawn from our experience in undertaking to carry out the policy declared by the Congress in section 2 of the Employment Act:

"The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

The policy thus declared does not create a "planned economy." By that term, people who speak with precision designate the kind of economic system in which the main objectives for which productive resources shall be used and the means to direct them to the desired ends are determined by the agencies of a central government. This choice must always be made by someone because the desires of the people for goods and services always far exceed the capacity of available resources. The planning authorities determine what productive enterprises shall be undertaken; what kinds of goods and services shall be produced by each producing unit, and in what volume; when, how, and to whom they shall be distributed; and at what price.

There is no theoretical necessity that in the planned society the political state shall be nondemocratic or that in a free economy political democracy must prevail. But the pragmatic need for these conditions in the respective systems is very great. For in what we Americans believe to be the only true democracy, in which the people have the right to use political means to further their own purposes and to combine with others of like economic interests to bring about action by government, no planned economy could meet the test of success. The planners, having made their plans, would not have the power to make them come true. It would also be conceivable for an absolutist government to decree a free economy. But it is not conceivable that such a government would long be able to tolerate some of the collateral consequences of the free system; for instance, the expanding organizations of groups of capitalist enterprisers, workers, and farmers which are bound to arise in a free economy.

A planned economy is thus markedly different in kind, and not merely in degree, from the free competitive economy which the Congress stipulates as a continuing objective of the Employment Act. In the free economy, most of the decisions about economic activity are made by individual enterprisers. The competitive price mechanism is relied upon to cause enterprisers to respond to the wishes of the people about the goods and services that shall be produced.

Yet the policy adopted in the Employment Act, being realistically responsive to modern conditions, does not arbitrarily limit the intervention of Government to the "police" functions of an earlier day. It is designed to permit cooperative attention to those problems which an individual or group cannot solve alone in a highly integrated economy through the sheer application of competitive strength, and therefore to permit, where the people approve those kinds of Government activity which may influence or even control some types of economic activity so long as they do not transform the essential character of the economy. The Act calls for an integration of policy toward affirmative objectives, rather than the random development of disconnected policies to deal with evils after they have appeared. It calls for foresight as well as hindsight.

The Socialists and other supporters of a planned economy, believing that the forces leading to the severe swings of the business cycle are inherent in a system of free competitive enterprise, contend that there is an inescapable and fatal self-contradiction within the provisions of the Employment Act. This is not the view of the sponsors of the legislation nor of the members of the Council. Those involved in the framing and application of the Act believe confidently that our free economy can be directed along a fairly regular course without imposing upon it intervention so extreme as to weaken private enterprise or destroy basic freedoms of choice.

Other conditions within which the Council must develop national economic policies are established by the range of economic knowledge and by the social, and especially the political, environment. One who would understand the process set up by the statute and the role of the Council must consider these limitations. The Council cannot offer professional advice more certain than economic knowledge permits, and the advice which it does offer must be adapted to other social policies which are so thoroughly accepted that it must be assumed that they will not be abandoned.

The Meaning of "Free Enterprise"

American sentiment has always been firm in support of a system of free enterprise and in opposition to a planned economy. Yet our political history is replete

(Continued on page 28)

LETTER TO THE EDITOR:

Philip Cortney on Excess Profit Tax

Favors this tax in lieu of higher corporation levies on ground all industries have not benefited from "backlogs" arising out of war, and those that have benefited are reaping higher postwar gains. Cites unfavorable situation of "soft consumer goods" industries and contends, because of present abnormal economic circumstances, it is more reasonable to assess an excess profit tax than to increase general corporation levy.

Editor, The Commercial & Financial Chronicle:

In his interesting column called "Observations" my good friend, Wilfred May, wrote a chapter bearing the title "Whose Ox Gets Gored by an Excess Profit Tax?" in which he expresses his disapproval of a new proposed excess profit tax. In a speech I delivered before the American Statistical Association, reported in your publication on Dec. 9, I stated that if the government needs additional revenues it is more advisable to get them by means of an excess profit tax (undesirable as it may be in principle) than by an increase in the general corporate tax. Mr. May apparently disagrees with this view because he imputes a selfish motive to the preference of an excess profit tax. He writes:

Philip Cortney

"This is so, not because they do not agree with this broad conclusion as we have stated it, but because of the controlling realization that they will not be among the very small minority—estimated at about 7,000 companies—who because of tests of size or success would be directly affected by the tax."

Mr. May expressed this view because he oversimplified the issue and did not take into account economic realities.

We are all aware of the fact that when the war ended some industries had a considerable backlog of demand and other industries had no backlog of demand. It ought to be clear that this is a completely abnormal situation, temporary in character and with considerable effect on the various corporations, *not because of differences in efficiency or differences in size of business, but merely on account of a situation inherited from the war.*

Let me cite a specific instance Last year more than 60% of the pieces of goods my company (Coty, Inc.) put on the market were sold at 1939 prices, notwithstanding the fact that production and selling costs went up on an average of more than 50% since 1939. Why? Simply because, not having inherited any backlog of demand from the war, competition in our field was so keen that we could not increase our prices to take into account the increase in costs.

The working of the price mechanism has been completely upset by the fundamental distortion which exists between various segments of our economy as a result of the war. The situation of our economy as a result of the war is as if there were free wages and an OPA on some goods like steel, coal, automobiles, houses, and farm products, while the prices of consumer goods are determined by the market. In other words, the prices of steel, coal, automobiles and houses are "fixed" by the employers and workers in those industries while the prices of many consumer goods are determined by the consumer. Worse yet, the wages in the consumer goods industries are affected upwards by the abnormal demand in the industries which inherited a backlog of demand from the war. Steel, durable goods, and, in particular, automobiles, are still in a sellers' market and therefore able to pass to the consumer any increase in costs. The railroads and utilities are permitted to base their rates on a cost-plus basis. The prices charged by the farmers are protected by the government. However, most of the soft goods industries are in a buyers' market and their profits are squeezed by costs which are affected upwards by the heavy goods industries. In other words, most of the soft goods industries are practically in a sellers' market for what they purchase and in a buyers' market for what they sell, merely on account of a situation we inherited from the war. This should make clear why a new increase in wages in the heavy and durable goods industries would create considerable difficulties for the soft goods industries.

Now we are ready to tackle the problem of whether in the present abnormal and distorted economic situation inherited from the war it is preferable to increase the excess profit tax or the general corporate tax should the government need additional revenues. The right answer, I think, would be first to state that the government ought to do its utmost to reduce expenditures so that no increase in taxation should be necessary. However, if the government is decided to squander public money, or if the necessity of rearmament makes it imperative to increase expenditures, then I contend it is more logical to assess an excess profit tax than to increase the general corporate tax.

First of all, what's the difference between these two taxes for corporations which would be liable to an excess profit tax? Whether they pay 50% of an excess profit or whether they pay 10% of the entire profit—I do not see very much of a difference. The only ones who could rightfully complain would be new and growing companies which have no "normal" basis for the computation of an excess profit tax. To repeat again, I know perfectly well all the objections one can raise against the principle of an excess profit tax. I am also aware of the difficulty of the practical application of such a tax. The issue which I have raised is only whether under the present abnormal and distorted economic circumstances, inherited from the war, it is more reasonable to assess an excess profit tax or to increase the general corporate tax if the government really needs additional revenues. Unless one wants to penalize the soft goods industries which have not had the good fortune of inheriting from the war the huge backlog of demand, it seems to me obvious that it is fairer to put on an excess profit tax, and probably sounder economically. I don't think that the fairness is disputable. I am therefore only going to argue the question of which tax is sounder from an economic point of view in the present abnormal economic situation.

Many of the companies who had not the good fortune of inheriting

(Continued on page 24)

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Total industrial production the past week was again maintained at a high level, despite some declines among the latest weekly business barometers. It also continued to moderately exceed that of the corresponding week of 1947.

Notwithstanding some seasonal layoffs employment remained close to peak levels. Continued claims for unemployment insurance rose by more than 16% and initial claims advanced about 23% in the week ended Dec. 4.

The approach of Christmas caused a seasonal decline in steel operations, but the American Iron & Steel Institute states that curtailments in the steel industry on New Year's Day of the current week will be negligible. Car loadings and auto output also declined the past week, while crude oil production held virtually unchanged and electric power output set a fresh all-time record in the week ended Dec. 16 and exceeded by almost 8% the corresponding level of 1947.

For the month of December industrial production showed a greater slowing up than was anticipated, a survey of the National Association of Purchasing Agents reveals. The check of 250 companies found that for every one that reported increases, three noted reduced production. Of those reporting, 42% noted that their inventories had dropped. This was the largest percentage of any month this year. Buying policies are more conservative, with 98% of purchasing agents reporting they are buying only those items which can be delivered within 90 days. Meanwhile, it was pointed out that new furniture orders booked in November were 22% below those of the like 1947 month. From the foregoing, the report stated it was evident the industry had caught up with the demand.

* * *

Living costs in November, according to figures compiled by the Labor Department, continue to reflect a decline. The consumers' price index of the Bureau of Labor Statistics again registered a fall in food prices during November, showing a decline of eight-tenths of 1% in retail prices. The index for the average family stands at 172.2% of the 1935-39 average, compared with 173.6% in October and with 174.5% in August.

The index for mid-November at 172.2% of the 1935-39 average was 4.4% above a year ago, 29.2% above June, 1946, when war-time price controls were abandoned, and 74.6% above August, 1939.

If the index remains at its present level through Jan. 15, the 300,000 General Motors Corp. employees, whose wages are tied to the index, will receive a 1-cent-an-hour cut.

* * *

Freight traffic on the nation's railroads in 1948 was well above any prewar year, but 2.3% below the record peacetime year of 1947, the Association of American Railroads reported.

According to William T. Faricy, the Association's President, freight traffic this year will be about 640,000 million ton-miles, or 43% above 1929, the prewar record year. He listed this as one of three facts which "stand out in the 1948 record of the railroads." The others were:

Increased costs since 1939 have been so much greater than rate increases "that even while handling this tremendous traffic with record efficiency, the railroads were able to earn a return on the net amount invested in them which averaged barely 4¼%." Mr. Faricy said that interest, rentals and other fixed charges must be paid out of this return, and that a part of the cost of providing improvements must be paid out of the remainder.

* * *

While business failures were virtually unchanged in November, the liabilities involved fell sharply from the unusually high level of the preceding month. The number of failures was 460, one less than in October but 47% above a year ago, and considerably less than the 1,042 reported in 1940.

Liabilities in November totaled $24,416,000, or less than one-fourth of the $101,060,000 in the previous month, but it was the highest November figure since 1932.

Businesses begun in the postwar period accounted for 62% of the month's failures. The remaining 38% of the casualties in November were about evenly distributed between warborn and prewar businesses.

Failures in the retail trade rose to 208, the highest monthly total during the past five years. Manufacturing failures rose moderately, while failures in other industry and trade groups were less numerous than in the preceding month.

* * *

Total dollar volume of retail sales in November, according to the Commerce Department, was slightly above November, 1947, levels and slightly below October, 1948.

The picture was just about the same after adjustment for seasonal variations.

November sales were put at $11,015,000,000 compared with $11,558,000,000 in October and $10,672,000,000 in November, 1947.

The November to November gain was about 3%.

* * *

The start of the last-minute Christmas buying rush boosted retail volume moderately in the week. Many shoppers continued to seek practical gifts and markdown sales attracted considerable attention.

The usual year-end dip in wholesale volume came somewhat earlier than usual this year. Order volume declined slightly in the week although it moderately exceeded that of a year ago. The desire to reduce inventories and to await future price developments caused many buyers to withdraw from wholesale markets.

STEEL OUTPUT SCHEDULED AT HIGHER RATE IN POST-CHRISTMAS WEEK

While government people and Congressmen worry about the lack of steel capacity, steelmakers are beginning to turn a little

(Continued on page 30)

Price Controls and Higher Corporate Taxes—Double Squeeze on Profits

By RALPH A. BING
Economist, Fitch Investors Service

Mr. Bing presents statistical estimates of what would be effect of new price controls and higher corporate taxes. Holds, barring unexpectedly sharp acceleration in defense expenditures, we have arrived at point where deflationary forces are slowly gaining. Therefore, efforts to counter remaining inflation forces by controls or higher taxes are belated and likely to precipitate an economic tailspin.

The postwar business boom is nearly three years old, and, quite naturally, has lost some of its earlier vigor. It is at precisely this precarious stage that the Administration is considering restoration of "stand-by" price controls and an increase in the corporate tax load. At this point in the economic cycle, either one of the two measures would probably lower the pulse of private business initiative materially, but their simultaneous application resulting in a double squeeze on profits, may well prove fatal to the economy. In order to substantiate this prognosis we shall first of all focus attention upon **existing weaknesses in the present business situation** which may be summarized in the following way:

Ralph A. Bing

(1) For some time, backlog demand for soft goods has disappeared and inventories have been replenished. As a result, markets for apparel, footwear, etc., have weakened. A similar trend is slowly emerging in most durable consumers' lines, with the exception of low-priced cars and housing.

Statistics for the 12-month period to Sept. 30, 1948, give support to the view that the slowdown in consumers' demand has, above all, originated in a decline of pent-up needs from postwar peak levels. During that period, average hourly wages in manufacturing rose 9.4%, as against a 6.6% rise in average cost of living, and total compensation of empoyees, representing the bulk of the disposable income of lower and medium income classes, increased by 10.2%, compared with a 7.7% rise in total consumers' expenditures; the rate of personal savings has gone up.

While in the next six months, disposable income of non-farm employees may go up by about $5 billion (equal to 2.8% of total present consumption expenditures running at an annual rate of $178.5 billion), part of this gain will be offset by a moderate decline in farm income. The remaining net gain in disposable income will not stimulate current consumers' demand enough to make good for the disappearance of backlog demand and for the declining purchasing power of some segments of the population. There is every indication that the slow erosion of postwar consumers' markets is gradually widening.

(2) At a time when deflationary pressures are being felt in many consumers industries, organized labor, still riding the wave of inflation, is obtaining further wage hikes. At present, lines accounting for perhaps one-half of total manufacturing dollar volume may still be in a position to pass the bulk of the new cost hikes on to the consumer, if desired; railroads and utilities depend upon action by their regulatory bodies, while most of the trade lines seem no longer in a sufficiently strong market position for such cost shifting. Obviously, the situation points toward an accelerated profit decline in many important business areas.

(3) The capital goods industries have assumed increasing importance in the present phase of the business boom, as reflected in these recent statistics:

Change in Composition of Gross National Product

Component—	Third Quarter 1948	Third Quarter 1947	Year 1940
Personal consumption expenditures	69.8%	73.0%	72.0%
Gross private domestic investment	15.2	11.1	12.9
Government purchases of goods and services	14.7	12.3	13.6
*Net foreign investment	0.3	3.6	1.5

*Excess of our exports of goods and services over similar imports, excluding government and private grants and gifts.

This trend has probably been accentuated in the last quarter of the year.

Although the continued urgency of postwar demand for most capital goods may have rendered these industries, temporarily, less sensitive to changes in the political and economic outlook, a severe cut in corporate profits through price controls and higher taxes would, undoubtedly, knock out much effective demand for producers goods. At the same time, it would result in a sharp decline in funds available for the financing of such goods; corporate profits retained for reinvestment have lately represented an average of 64% of total corporate net, and have been sufficient to cover about 63% of current investments in producers goods.

(4) The magnitude of government spending, a major prop in our current boom, is a factor of uncertainty. International tensions prevent the government from planning along strictly economic considerations. Present indications are that the tempo of our rearmament will not be stepped up to the point where the mildly deflationary trend that is now spreading, would soon be reversed into a new upward spiral.

(5) On the monetary and fiscal level, however, there remains the threat of new budgetary deficits and a return to credit inflation, owing to plans for a simultaneous increase in defense and welfare spending at a time when corporate profits and farm income seem destined to shrink, and when Federal income tax revenues, thus, may soon run lower. Income and profit forecasts are naturally, more hazardous than output and employment predictions and, consequently, projections of income tax revenues have often been considerably off the mark. However, current economic and fiscal trends point toward the possibility of a Federal deficit of between $1 billion and $3 billion in the 1949-50 fiscal year unless military and foreign aid spending can be very closey controlled.

Under these circumstances, the re-imposition of price ceilings, together with higher corporate taxes, looks like a most dangerous policy. Price controls would unquestionably accentuate the decline in corporate profits, and rising corporate tax loads may, then, in vain try to offset, let alone outweigh, the effect of that trend upon Federal revenues.

However, in order to go beyond these generalities, we shall, for the moment, eliminate from our consideration the possible shock effect of such measures and the start of a vicious downward circle and, instead, try to be more specific on the direct effect—we may call it the minimum effect—which price controls and higher taxes would now have on corporate profits.

Direct Profit Squeeze Through Price Controls

Assuming, for a moment, that there were no fourth round of wage increases, nor any price controls, it seems a conservative estimate that the weight of easing markets in roughly one-half of our industries and trades would

(Continued on page 25)

"OBSERVATIONS" — A. Wilfred May has been attending the meetings at Cleveland this week of the American Economic Association and the American Finance Association. His account of some of the economic problems under discussion appears on page 9.

Trends in Life Insurance Investments

By FERGUS J. McDIARMID*

2nd Vice-President, Lincoln National Life Insurance Association, Fort Wayne, Ind.

Pointing out increased demand for capital by industry and for housing in postwar period has led to more investments by life insurance companies in mortgage loans, public utility and industrial bonds, thus resulting in reduction in their U. S. bond holdings, Mr. McDiarmid says this development avoided a capital credit stringency and rise in interest rates. Holds substantial increase in insurance investment in equities has been hindered by legal restrictions, and that, because of recent rise in interest rates, institutional investors have no great incentive to increase equity holdings.

United States life insurance companies have at the present time assets totalling over $55 billion. This is equivalent to over 2½ times the assets of the mutual savings banks and about 4¼ times the assets of savings and loan associations which are members of the Federal Home Loan Bank System. Life insurance assets are in general not comparable to those of the commercial banks, since the former represent entirely the savings of individuals while those of the commercial banks arose mainly from credit creation. Moreover while life insurance assets are largely available for long-term investment, those of the commercial banks must be kept largely in short-term paper or cash.

The life insurance companies have become the most important single channel through which the savings of individuals are marshalled to meet the long-term capital requirements of the country. The relative importance of such savings is indicated in Table I.

TABLE I

(Billions of Dollars)

	*Total Personal Savings	†Net Savings through Life Insurance
1929	3.7	1.1
1930	2.9	1.0
1931	1.8	.7
1932	—1.4	.2
1934	—1.2	.2
1935	— .2	1.1
1936	1.8	1.5
1937	3.6	1.8
1938	3.9	1.4
1939	2.7	1.6
1940	3.7	1.7
1941	9.8	2.1
1942	25.4	2.4
1943	30.0	3.1
1944	34.2	3.5
1945	26.6	3.9
1946	11.8	3.5
1947	8.8	3.5

*Estimates of Department of Commerce, published in Survey of Current Business for July, 1948.

† From aggregates of all life insurance companies, published by Spectator Year Book. Net savings shown were obtained by deducting from the increase in total admitted assets the net increase in policy loans and premium notes.

	Total Personal Savings (billions $)	Net Savings through Life Insurance (billions $)	Percent of Total Personal Savings
1929	3.7	1.1	31%
1930-41	28.3	14.7	52
1942-45	116.1	13.0	11
1946-47	20.6	7.0	34

From the available data it appears that the current rate of life insurance asset increase, amounting to about $3½ billion annually, is equivalent to about one-third of the total current savings of individuals.

The figures also indicate that in periods of low business activity, which are also periods of low savings, life insurance savings tend to constitute a larger relative part of the total than in times of prosperity, such as the present or the year 1929. This is understandable as individuals tend to hold on to their life insurance until they have been forced to abandon other types of savings. Also, there is a powerful automatic feature in life insurance savings because of the periodic nature of premium payments necessary to keep a policy in force.

Certain factors in the American economy tend to increase the relative importance of savings made through life insurance. It has become an increasingly urbanized economy and one of increasing specialization. To a larger extent than formerly the major tools of production are financed and owned on a collective basis rather than directly by individuals. An expanding proportion of savings now takes place through monetary channels rather than through the direct acquisition of property.

Even more important, progressive income tax schedules have very greatly reduced the ability to save of people in the higher income brackets, while the middle income group has been enlarged from below by an increase in real wage levels. In other words, we have during the last two decades witnessed a very great levelling in real income. As a result a larger proportion of total ability to save now rests with people who traditionally save through life insurance and other institutional channels, rather than through the direct purchase of securities and other investment media.

Recent Investment Trends

In Table II there is presented in summarized form the investment trends over the 18 years ending with 1947 of 49 large legal reserve life insurance companies, which hold between them about 90% of the assets of the entire industry. These trends have been presented over three periods—a 12 year prewar period ending in 1941, the four war years from 1942 to 1945, inclusive, and the two postwar years 1946 and 1947.

These three periods reveal markedly different trends. The first one was characterized by a considerable shrinkage in the long term private debt of the country. However in this period the life insurance companies did increase their holdings of securities, representing the long term debt of public utilities and industry, by taking over, mainly through the refunding process, large segments of this debt formerly held by others. This was accompanied by a sharp decline in the rate of interest paid on this debt.

A large part of the increase in life insurance assets during these prewar years was invested in U. S. Government bonds, mainly for lack of other suitable investment media, although in 1941 the advent of defense financing did provide some positive stimulation for such investment.

During this dozen years investment in mortgage loans declined, both absolutely, and to an even greater extent on a relative basis, from 42% of the assets of 49 companies at the end of 1929 to 19% at the end of 1941. The absolute amount of this decline was offset by an increase in real estate holdings, resulting mainly from mortgage foreclosures. Real estate holdings reached a peak at the end of 1937 of 8% of the total assets of the companies, and then amounted to over 40% of their outstanding mortgage loan accounts.

The four war years were characterized by a very sharp increase in holdings of U. S. Government bonds, which was equivalent to somewhat more than the total increase in assets of the companies in this period. While such holdings did not reach an absolute peak of over $19½ billion until 1946, they reached the relatively high proportion of over half the total investments and cash of the companies at the end of 1945.

Also in these years foreclosed real estate was largely liquidated, and advantage was taken of very high municipal bond prices to largely liquidate holdings of such tax exempt securities. Because of the formula by which life insurance companies are taxed, the feature of tax exemption is of comparatively little value to them.

The postwar period has witnessed the development of some new trends. Important among these has been a great growth in the demand for capital on the part of business and industry and for housing. To help meet this demand life insurance investments in mortgage loans, public utility bonds and, most strikingly, in industrial bonds, have shown a rapid increase. In the years 1946-47 this increase was largely handled through investment of the net increase in life company assets and only to a minor extent by the sale of U. S. Government bonds.

Turning back briefly to Table II, it should be realized that the dollars referred to in the years 1946-47 were of very much lesser purchasing power than those of 1930-41, and the dollars available for investment in 1948 were of lesser purchasing power still. This is an important factor in interpreting capital demand as expressed in dollars.

In the year 1948 the life insurance companies rather heavily augmented the funds made available by their increase in assets by the sale of a substantial amount of U. S. Government bonds. In the year 1948 the 49 companies referred to in Table II

(Continued on page 38)

*An address by Mr. McDiarmid before the American Finance Association, Cleveland, Ohio, Dec. 29, 1948.

TABLE II

Investment Trends of 49 Life Insurance Companies

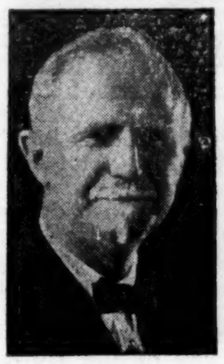
(Amounts in billions of dollars)

	End of Calendar Years 1929	1941	1945	1948	Increase by Intervals 1930-41 (incl.)	1942-45 (incl.)	1946-48 (incl.)
Mortgage Loans	7.0	5.7	5.7	8.8	—1.3	--	3.2
Real Estate	.3	1.7	.7	.9	1.4	—1.0	.2
Bonds:							
U. S. Government	.3	6.4	19.0	15.2	6.1	12.6	—3.8
Municipal	.6	1.7	.6	.6	1.1	—1.1	--
Canadian Govt.	.4	.6	1.1	1.4	.2	.5	.3
Railroad	2.8	2.9	2.7	2.7	.1	— .2	--
Public Utility	1.4	4.6	4.7	7.9	3.2	.1	3.2
Industrial & Misc.	.2	1.8	1.8	7.1	1.6	--	2.5
Total Bonds	5.7	18.0	29.9	34.9	12.3	11.9	5.0
Preferred Stocks	.2	.4	.6	1.0	.2	.2	.4
Common Stocks	.1	.1	.2	.2	--	.1	--
Cash	.1	.8	.6	.6	.7	— .2	--
Total Investments and Cash	13.4	26.7	37.7	46.4	13.3	11.0	8.7

1949 Business and Financial Outlook

By ROGER W. BABSON

Mr. Babson presents in summarized form his predictions pertaining to general business, commodity prices, agriculture, trade, taxes and other matters in forthcoming year.



Roger Babson

Babson's 1949 Predictions

General Business	Off	5%
National Income	Off	5%
Farm Income	Off	15%
Bituminous Coal	Off	5%
Anthracite	Off	10%
Crude Oil Production	Up	3%
Steel Output	Up	5%
Automobiles	Up	10%
Building and Construction	Off	20%
Lumber	Off	5%
Foreign Trade	Up	5%
Airline Passenger Miles	Up	10%
Military Activities Including Aircraft	Up	50%
Retail Trade	Off	5% to 10%

Total volume of business for 1949 will be less than that of 1948. There surely will be many soft spots.

General Business

Most industries will show smaller net profits. This means that, in many cases dividends will be less in 1949.

Military preparedness will be a new and powerful industry which this country never heretofore experienced in peacetime. It is destined to bolster employment for some years ahead, but not the standard-of-living.

Inventories quoted both at their dollar values and in volume will increase during 1949. Both raw material piles and manufactured goods will be in greater supply during 1949.

Commodity Prices

Some rationing or priorities may be attempted in 1949. The public will make demands for price controls in the case of certain products. Beware of installment purchases in 1949.

We expect the peak in wholesale commodity prices has been reached for this cycle. We, therefore, advise going easy on inventories. 1949 is a time to get out of debt and stay out of debt.

The retail price of some goods, other than food products, may be higher during 1949, but we believe that the Cost-of-Living Index has turned downward.

Retail price changes lag after wholesale price changes. This explains why we expect many retail prices on good quality merchandise to hold up for awhile after wholesale prices decline.

Farm Outlook

The total farm income for 1949 should be less than that of 1948, due to lower prices for wheat, corn, pork, poultry, eggs and certain dairy products. Farmers should diversify more in 1949, get out of debt, putting surplus money into savings and prepare for real trouble some day.

The supply of certain vegetables and fruits should increase during 1949. The price of these should fall off, barring some weather, insect or blight catastrophe.

Poultry and dairy products will also increase in volume during 1949, prices averaging less than 1948 prices.

Farmers will continue to work for extensions of subsidies. The above four Farm Forecasts assume normal weather. A drought could upset these.

Taxes

The Federal Budget will not be decreased during 1949.

Federal taxes will not be decreased during 1949, but there may be some readjustments to encourage venture capital and to ease the tax burden on wages.

We forecast that an attempt will be made by some cities to put ceilings upon real estate taxes or enact local sales taxes.

The long-term capital gains tax of 25% will remain unchanged.

Retail Trade

Goods on counters will be of better grade in 1949.

There will be many "markdown sales" of inferior quality goods. Curbs on installment buying will continue.

The dollar value of all retail sales in 1949 should about equal that of 1948, perhaps off 5%.

The unit volume of retail sales will be less in 1949 than in 1948.

Foreign Trade

Our foreign trade will remain about the same. We shall continue to help Europe; but it will be on a more efficient basis.

More foreign credits will be granted during 1949; but these mostly will be direct to business concerns.

There will be greater competition from other countries in legitimate foreign trade where the credit is good.

Throughout 1949 war talk will continue; but no real World War III will start in 1949. WAR PREPARATIONS WILL CONTINUE.

Labor Outlook

Good business depends upon two things: (1) reasonable wages and (2) reasonable prices. When both of these factors are in balance there is good business; but when they get out of balance, look for trouble. Low prices are of little help when people have insufficient wages with which to buy; but it is also true that good wages are of little use if prices are too high for people to buy. The Taft-Hartley Law will be repealed or amended to encourage free speech, union protection and increased production.

The income of wage workers must increase before an advance in prices. Contrariwise, too high prices always precede a decline in employment and wages. This downward cycle leading to unemployment may begin in 1949. Much depends upon crops and weather.

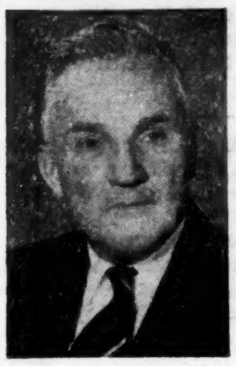
Labor leaders who get increased wage rates usually get re-elected, while those who do not get wage increases are liable to be defeated. Hence, labor leaders have natur-

(Continued on page 33)

From Washington Ahead of the News

By CARLISLE BARGERON

It was some 30 years ago that American boys being sent to Europe to kill off the Kaiser were told that the German people lived practically in slavery, that the ruling classes coming along the streets kicked the ordinary people into the gutters and a lot of similar nonsense. In the year 1949 we find our country going deeper and deeper into the paternalism in which the Germans were then quite advanced: workmen's compensation, health insurance, various devices, in fact, of what is known as social security. Of course, the Germans or nobody else in Europe have ever had any kind of security. The wars have seen to that.



Carlisle Bargeron

And certainly after we, in our great enlightenment, caught up with the backward Germans and adopted social security, we gave no security of any kind to the thousands of boys who were killed and maimed in World War II. Also, there would seem to be plenty of questioning about a social security system to which the employe is required to contribute so much of his wages and then when he becomes eligible for its benefits, learns that the economic state is such that these benefits for which he has paid are worth only about half what he had bargained for.

When this writer was a youngster he belonged to a labor union. Organized labor then decried any sort of paternalism. Pensions, sick benefits, any of that sort of stuff, were denounced as drugs to lull the employe to sleep. It was contended and rightly so, that this paternalism was always at his own expense, whether it was apparent to him or not. It was at the expense of increased wages.

Personally, I recall one vivid instance of what a soporific it was. With a salary of $50 a week, I had accumulated $6 000 worth of life insurance with my employer, this and certain sick benefits. On several occasions I turned down offers from competitive employers of $60 and $65 a week because of this "estate" I had established. Yet for a man making $50 a week, a jump of $10 or $15 is quite an advance. I finally made the jump and it was the most profitable decision I ever made in my life.

But nowadays we find the labor unions not only demanding this "paternalism" from the employer but from the government as well. In either instance, it is at the expense of "take home" pay. The labor unions are getting away from their old policy of insisting that the worker be paid the wages he is worth or what he can exact and leaving it to him to establish his security in his own way.

One reason for the change of attitude, of course, is that the union formerly considered these paternalistic schemes as an effort on the part of the employer to head off the union. Now the union either administers or is in on the administration of the paternalism. Whereas it was formerly looked upon as giving the employer a stronger hold on the worker, the union now considers that its hold is increased. If the worker were a mere statistic under the old order he is more so today. His chances of getting out of the grove, of advancing ahead of his fellows, the only way he can get a real increase in wages, are far and few between.

More and more he is becoming but a cog in a vast machine. On a certain day he and 5,000,000 other workers get a 10% increase in wages, after a lot of controversy or a prolonged strike. It turns out to be no increase at all because 5,000,000 others are getting it.

I used to live in a small town whose whole economy turned around the railroad payroll. There would be a lot of excitement when the workers got a raise. The furniture and other stores would have bargain sales, the one movie house would advertise a double feature and that was back in the days when a double feature was something extraordinary instead of commonplace.

There would be quite a flourish for a couple of weeks, then the town and the people would settle back into their drab every day existence. Shirts for which men had paid $1 would now be costing $1.25. It would be explained to me that they were of a better quality, a quality that had been denied to these people before. I could never understand it. They seemed to be the same quality of shirts to me. The only time I saw a fellow's living standards improved was when he got a promotion

I am not talking, of course, about the gadgets which came along and made living easier for the housewife, or the automobile and such like. Mass wage increases wrought by unions were not responsible for them.

Most likely, the one man who is most responsible for the changed attitude on the part of labor organizations, their going in for the old despised paternalism, is Walter Reuther. Many forces and many men are at work to bring about this change. But Walter is as much responsible as any one man. He is a socialist. The only way the socialists can ever effect a real increase in wages is to freeze profits while steadily boosting wages. In other words the employer who must have $100,000 capital to pay the increased wages should have no more profit than he had on a $50,000 capital, notwithstanding he has had to borrow or be responsible for that much more money. That's the way the organized labor movement is working.

Measurement of Utilities Capital

By RALPH E. BADGER*

Ralph E. Badger Associates, Detroit, Mich.

Dr. Badger discusses methods of determining costs of utilities' capital acquired by debt creation, preferred stock and common stock issues. Gives results of various methods applied and points out their limitations. Says studies still are inadequate for determining best type of public utility capital structure and for this purpose proper judgment and not fixed rule must be used.

Capital is generally acquired today in the utility industry through three basic types of securities: (1) Debt Securities, either mortgage bonds or debentures; (2) Cumulative Non-Participating Preferred Stock; and (3) Common Stock, with full voting rights. Our subsequent discussion will be devoted to methods of determining costs of capital acquired by each of these standard types of securities.

Measurement of current costs of acquiring debt capital, either by the issuance of mortgage bonds or debentures, is a comparatively simple procedure. It first becomes necessary, by an analysis of the company under consideration, to determine its general risk characteristics by a study of the particular utility industry of which the company is a part, i.e., electric, gas (manufactured or natural, distributing wholesale or retail), telephone, or transportation. Thereafter, some consideration should be given to the size of the company and to the territory it serves, its past investor acceptance, its operating ratios, the condition of its properties, and other factors having a bearing on its status relative to other companies in the industry. After such a study one may then proceed to determine the historical levels of interest rates of securities similar in quality to those that might be issued by the company, current yields to the public in respect to offerings of securities with similar investment-risk characteristics, as well as to the general level of interest rates on securities of somewhat higher and somewhat lower grade.

It is also possible to develop regression studies in reference to presently outstanding bonds of corporations in the same general line of business, by selecting a large number of such issues and by computing for each issue (currently outstanding and traded in the market) current yields and current absorption ratios, the absorption ratio being defined as the percent of total income available required to meet the fixed charges of the company.

A refinement may be made by determining the amount of fixed charges on the issue under consideration and all prior obligations. For practical purposes, however, I have found it sufficiently accurate to use the entire fixed-charge requirement of the company in determining absorption ratios. Investors, in general, avoid even the first mortgage bonds of companies where the total requirements place an undue burden on the company.

Having determined the current yields and absorption ratios for a sufficient number of companies, it is possible to plot the data on a scatter diagram. One would expect that the yields of such bonds would increase as the absorption ratios increase. Studies of this nature were made in connection with the Federal Communications Commission report and it was demonstrated that there was correlation between the absorption ratio and current market yields for various groups of bonds here analyzed. The studies which appear in the Federal Communications Commission report cover a fairly wide list of bonds; with telephone, electric, gas and electric, and gas company bonds grouped together. There is some disadvantage in this procedure, under present conditions, in view of the fact that coverage requirements and yields, as related to coverage requirements, may vary in one industry as contrasted with another. Thus, today, yields on high-grade telephone company bonds, even with comparatively low coverage, exceed the yields on high-grade electric utility bonds. Bonds of gas companies, on the other hand, up and down the line, sell at higher yields than do bonds of electric utilities.

On the basis of recent data, it appears that the regression developed under current conditions is much less pronounced than that demonstrated in the Federal Communications Commission report. In current studies of all new issues brought out in 1947 and 1948, of electric utility companies rated "A" or better, there appears to be low correlation between yields and absorption ratios. These studies also included the income absorption ratio for each issue and the yield, based on prices at Sept. 15, 1948. An inspection of the plots indicated a low degree of correlation. The computed line of correlation, using a first degree equation formula, produced a figure of .00288% for the b, or variable, component of the equation. In other words, each 1% increase in the absorption ratio increased the yield by .00288%. However, the coefficient of correlation in this study proved to be only .223, indicating little or no advantage in using a mathematically computed line of regression, as contrasted with the use of an arithmetic average. In fact, the weighted arithmetic average of yields for each group of bonds, i.e., "AAA," "AA," and "A" bonds, gave a better indication of the cost of debt capital for the utilities studied than did the regression study. This is at considerable variance with the general conclusions drawn in the study of the Federal Communications Commission. It is true that the correlation curves developed in the Commission's study, and shown on Charts 10-20 of its report, were not mathematically computed. Yet, visual inspection of the data shows a fairly definite tendency for yields to decline as "times requirements earned" increased. The conclusions set forth in the report are as follows:

"The charts show a definite tendency for the lowest points to define a curve which represents a falling yield with increasing earnings coverage. When earnings are only slightly in excess of requirements, the yields set by market transactions tend to be high and widely divergent. As the earnings position improves, there is a tendency for both the yields to fall and for the scattering to decrease. Under conditions of good earnings coverage, the points representing the various market valuations tend to be closely clustered. Where the earnings coverage is still larger, there is no further decline in yield."

The results obtained in respect to a study covering 1948, varied only slightly from studies which were developed on similar bases in 1947. In both cases correlation found among recently offered utility issues, by attempting to correlate bond yields with absorption ratios, was low. Investors currently pay little attention, within fairly wide limits, to coverage and are guided in the selection of their risks and the rates which they will accept in connection therewith, largely by the ratings given to the bonds, and within the coverage requirements for various classes of bonds make no fine distinction predicated upon interest coverage.

After one determines, on the basis of comparative issues and current market prices, the yield which the company must offer to the public in the acquisition of debt capital, it then becomes necessary to make a study of underwriting and corporate costs in connection with the flotation of an issue of bonds. Data necessary to a study of this nature can readily be found in the prospectuses furnished in connection with recent flotations of utility issues. Again, in making such a study, attention should be paid to the rating of bonds of the company under consideration and the size of the issue. Marketing costs, in particular, increase as the **quality** of the issue decreases. Similarly, marketing costs tend to increase as the **size** of the issue decreases. Corporate costs, on the other hand, tend to increase **only** with a decrease in the size of the issue. "Corporate costs" may be defined as those costs incurred by the company in preparing an issue for sale.

The weighted average of underwriting, corporate and total costs in respect to all electric light and power and telephone company bonds, rated "AAA" and "AA,"

(Continued on page 26)

*An address by Dr. Badger before the American Economic Association, Cleveland, O., Dec. 29, 1948.

Business Will Soon Move Down!

By PAUL M. MILLIANS*

Vice-President, Commercial Credit Corp., Baltimore, Md.

Finance company executive, holding it is a good guess business will soon move down from the artificially high prosperity level of postwar years, urges study of causes, their force and their probable outcome. Says both prices and credit are inflated and highways we are traveling are toward readjustment. Holds reaction must be permitted to come now and naturally, and condemns Federal Government's vast spending and give away programs as keeping taxes high and making investors timid. Advo-

Bankers and the Commercial Credit Company have mutual problems in many ways—in our daily operations in business and consumer financing and in broader questions that crowd our attention and disturb our thoughts. What is the condition of business now and what is its future? For the longer view will business be able to move ahead and prosper in the healthy, invigorating economy of private, competitive enterprise? Or will it come more and more under government control and direction—the trashy ideology of socialism—with all of its economic feebleness?

Paul M. Millians

Tonight I should like to think out loud with you for a while on these questions and suggest a few tentative answers. There are no precise answers for they are questions into the future and neither statisticians nor psychologists or other medicine men of the mind have worked out rules for projecting material values and patterns of human behavior into a future that will be, as always, more human than material. Contrite and humble forecasters who tried to reduce man to a statistic line the political highway stretching back only a few weeks.

Yet it is the future that should engage us. The loans we made today—the balance sheet values we tried to appraise—the income we hoped for—were all anticipations of the future.

But the best that can be done where the future is concerned is to study causes at work, estimate their force, and guess at their probable outcome.

Proceeding in this manner, and on the question of general business conditions, with qualifications I shall make later, it is a good guess that business will soon move down from the artificially high prosperity level of the war and immediate postwar years. There will be severe adjustments in some lines, less in others, as prices, costs and production respond to supply and demand—the two gateways through which all economic forces are brought to bear on general business conditions.

The first reason for believing this is inflated price. The second is inflated credit. There are others, of course, but these are basic.

Though the causes seem to mystify some we all know that in the present state of the nation price and credit are inflated. They have been growing together in the fertile seedbed of inflation that World War II prepared—as prices moved up goods and property were worth more as a basis for credit, higher loans supported still higher prices, and still higher prices in turn supported new loans. This is the growing factor in the present economy that portends reaction and adjustment.

The Price Structure

Consider the growing price structure.

War added greatly to our productive capacity as a nation. However demand has out-paced supply in most lines since war ended. Income has lagged behind prices; and as any freshman in economics knows markets and effective demand have been narrowed in the process—markets and demand get narrower as prices go up. For the great majority of people there are more dollars on the paycheck and in the pay envelope but their dollars buy less food, clothing and shelter; there is less, or nothing, for home appliances, radios, television, automobiles—the extras that give dignity to the American way of life and make living more pleasant. Fixed income groups in the lower range which constitute an important part of total demand have to do on less.

And we should never forget that "demand" is also "desire" to possess. As prices rise an increasing number who can buy refuse to buy, especially those things that are not immediately needed.

And any banker can write the rest of this chapter.

As markets and demand narrow and come into balance with supply, inventories pile up and prices begin to soften. Merchandising strategy is changed; the emphasis shifts from advance buying and speculation to reduction of inventories, to less buying, to greater emphasis on selling and sales promotion. This strategy moves on to the producer and production is reduced. Moods to curtail expansion and new business ventures begin to appear and their contagion spreads. Unemployment and fear of unemployment develop and further narrow demand. A reaction is underway.

Consider the growing credit structure.

In the apparently congenial growth of price and credit we mentioned, the significant fact is that it is only apparent: actually as price and credit grows credit gets progressively weaker. Indebtedness moves up faster than the rate at which sound asset and capital values accumulate on any prudent basis of valuation, prices sooner or later push demand for credit beyond sound loan values, and capital has not grown proportionately with growing credit demands in recent years.

And as with price inflation, any banker can write the rest of this chapter.

Weakening Credit Base

Progressively the base for credit weakens in particular situations. Business by business, industry by industry, one by one, or in many places at the same time, credit is restricted or withdrawn altogether. And to the extent that this happens speculation must stop; trading, business operations, business expansion and new business ventures must be curtailed, for none can go on without financing. A reaction is underway.

Thus the growing factor of price and credit in a free economy comes to an end as all such movements must come to an end, otherwise they would end in total collapse.

You may ask why do we review familiar economic patterns of price and credit inflation?

The answer I give is that they are the highways we are now traveling toward reaction and adjustment. For those who stop to read there are already legible signposts pointing in that direction—narrowing demands, inventories piling up, prices softening, credit in particular situations being withdrawn.

Are we being pessimistic in our predictions? Not at all.

There may be some cause for pessimism of a kind. A business reaction will not have to be great before it has great meaning to the inefficient, financially weak business; to the inexperienced business without financial stability that has yet to meet the severe test of competition. For many of these survival will be difficult when volume and prices go down: even a small percentage of price, a small percentage of volume, can take a large percentage of profit.

Some will fail. However, a business that cannot meet the test of competition should fail—eliminating the weak and the inefficient is the strengthing process of free, competitive enterprise; the essential fact of its vitality.

Pessimistic? If reaction and adjustment can come naturally, now, it would very likely come rapidly and then business would move ahead to a self-sustaining peacetime economy that is bright with possibilities.

But such predictions need important qualifications.

Reaction and adjustment must be permitted to come now and naturally. Adequately free markets must direct the production, price and purchase of goods and keep balance among various developing industries. To much injection of government control and direction into trading operations, by which some official has the power to change prices overnight, will lead to confusion, disorganize channels of trade and make business planning and profitable operations difficult for many.

Moreover, in a broader qualification we are assuming there will be no heroic and vast spending and giving-away programs by the Federal Government, for any purposes whatsoever that disregard sound economics—taxes that keep new equity capital from forming and keep men of great ability and economic knowledge and investing power timid—public spending that disregards quality of money or quality of credit.

Taxing and spending and propping with government aid could delay reaction and adjustment here and there — it would come later as a severe depression. And conceivably, should taxing and spending and propping be carried too far, the depression would then come concealed in the gray, mean averages of a highly socialized state, paid for out of lower living standards of all the people.

Which brings us after considerable prologue to the subject itself—"The Future Will Be What Men Think."

Pay Attention to What People Think

And my thesis is that you bankers as thought leaders in your respective communities should pay more attention to what the people think. Exercise more your qualities of thought leadership. Nobody in your community has ever seen a thought—they are intangible—nevertheless the ideas, attitudes and opinions of the people who live there and in other communities all over America are shaping our future—our whole future.

Evolutionary socialism as distinguished from the revolutionary

(Continued on page 39)

*An address by Mr. Millians before Group Three, Maryland Bankers Assn., Baltimore, Md.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Dairy Industry—Comments with a recommended switch—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are analyses of **Atlantic Coast Line RR., Honolulu Oil Corp.** and **Scranton Electric Co.**

Market Comment — Bulletin — Hannaford & Talbot, 519 California Street, San Francisco 4, Calif.

Over Counter Index—Bulletin and Chart—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Also available is a list of securities widely held in Wisconsin.

Paper Manufacturer—Data on interesting 1st mortgage industrial bond—George Birkins Co., 40 Exchange Place, New York 5, N. Y.

Television—Brochure discussing trends — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are an analysis of **Central of Georgia** and of **Sperry Corp.** and items on **Humble Oil, Niagara Hudson Power Corp., North American, Ohio Oil** and **Standard Gas & Electric.**

Western Canada Oil Industry—Data—Charles King & Co., 61 Broadway, New York 6, N. Y.

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Bastrop, La. — Circular—Howard, Labouisse, Friedrichs & Co., Hibernia Bank Building, New Orleans 12, La.

Bell Telephone Company of Canada—Analysis—Milner, Ross & Co., 330 Bay Street, Toronto, Ont., Canada.

Bingham Herbrand Corp.—Memorandum—Wm. J. Mericka & Co., Union Commerce Bldg., Cleveland 14, Ohio.

Bridgeton, N. J.—Circular—J. B. Hanauer & Co., 50 Commerce Street, Newark 2, N. J.

Brown Shoe — Memorandum — Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Chicago Corp.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Commonwealth & Southern Corp.—Circular—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Continental Casualty Co.—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Coral Gables Tax Participation Notes — Memorandum — Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Du Pont or Dow—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Gulfport, Miss.—Circular—Weil & Arnold, Canal Building, New Orleans 12, La.

Hallicrafters Co.—Memorandum—Amott, Baker & Co., 150 Broadway, New York 7, N. Y.

Also available is a circular on **Broadmoor Corp., 80 Broad Street, Inc., Brooklyn Fox Corp., Hotel St. George Corp., Industrial Office Building, Sherneth Corp.** and **40 Wall Street Building, 10 E. Fortieth Street Building** and **60 East Sixty-Fifth Street Corp.**

Northern States Power Company, Minn.—Special write-up—A. C. Allyn and Company, Inc., 100 W. Monroe Street, Chicago 3, Illinois.

Strawbridge & Clothier—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

Also available are memoranda on **John B. Stetson** and **Warner Company.**

Time, Incorporated—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Utah Power & Light—Write for data attention of R. H. Burton—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

Wheeler, Osgood Co.—Circular—Sills, Minton & Co., 209 South La Salle Street, Chicago 4, Ill.

Winters & Crampton Corp.—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of **Miles Shoes, Inc.**

El Salvador Extends Bond Exchange Offer

The Republic of El Salvador has extended for one year the time in which holders of two of its bond issues may exercise their rights under an exchange offer dated April 26, 1946.

The period within which the offer to exchange the Republic's Customs First Lien 8% Sinking Fund Gold Bonds, Series A, due July 1, 1948, and 7% Sinking Fund Gold Bonds, Series C, due July 1, 1957, and the appurtenant coupons, for Republic of El Salvador 4%, 3½% and 3% External Sinking Fund Dollar Bonds, due Jan. 1, 1976, and to pay in cash at 15% of their face amount Certificates of Deferred Interest (Scrip Certificates), which were issued with respect to bonds of Series C, may be accepted, has been extended from Jan. 1, 1949 to Jan. 1, 1950.

The period for exchange of Convertible Certificates for 3% External Sinking Fund Dollar Bonds of the Republic, due Jan. 1, 1976, in multiples of $100 principal amount, has also been extended from July 1, 1950 to July 1, 1951.

Holders may obtain copies of the Exchange Offer at The National City Bank of New York, Corporate Agency Department, 20 Exchange Place, New York 15, N. Y., the New York Agent of the Fiscal Agent, Banco Central de Reserva de El Salvador, San Salvador, El Salvador.

Sakier Reopens Offices To Deal in Israeli Issues

Abraham H. Sakier is opening offices at 40 Exchange Place, New York City, to resume the brokerage business in Palestinian securities which was suspended during the war years. The company will conduct an over-the-counter business in Israeli securities.

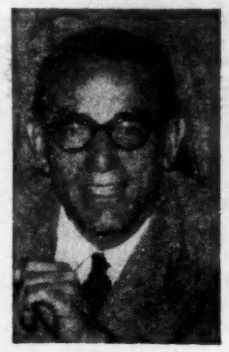
Impact of Coming Tax Legislation on Business and Security Markets Highlights Parley

By A. WILFRED MAY

Portentous tax legislation indicated at meetings of Economic Association at Cleveland. Wide effects on corporate structures and new issue markets as well as on government debt management forecast.

CLEVELAND, OHIO Dec. 29—Quite remarkable at this annual convocation of economic and statistical associations, with its preponderance of academicians along with the business and government economists, is the pointing up of the crucial practical implications of coming Congressional action on the 1949 tax bill.

The great importance of tax policy as affecting management of the public debt, particularly in view of the necessity for reversing the current dangerous rises in the short-term marketable government issues, was forcefully brought out in the major address of Winthrop W. Aldrich, Chairman of the Chase National Bank. Mr. Aldrich, whose authority is enhanced by his triple role as commercial banker, reserve bank official, and insurance trustee, showed the important place of tax action as affecting such activities as the desirable shifting of the Federal debt from the banking system to individual investor-ownership, and the Treasury's use of cash surplus to offset the inflationary effect of bond market support purchases.



A. Wilfred May

The New Tax Laws and Corporate Welfare

But the tax aspects of more direct interest to the investment banking community and others engaged in the capital markets are being pointed up by others of the authorities here. Under the assumption that the corporate tax rates will be substantially raised by the new Congress, which is generally taken for granted, many important effects on the individual investor as well as on the corporation and the capital market, are emphasized.

It is generally agreed that dividends will consequently be reduced to some extent, but not in proportion to the fall in profits, for the reason that the record shows that over the course of years the amount of dividends distributed has consistently failed to follow in amount either rises or falls in the amount of available net income. Also tax hikes will cause less decline in dividends than in corporate savings—which may mistakenly soothe the individual's concern over the long-term damage to his company's as well as his own actual welfare.

The main beneficiaries of burdensome corporate taxes, it is felt, will be the security-selling industry because of the companies' great dependence on the capital markets instead of on internal savings for their working capital and plant addition needs. It is also thought that where real opportunity exists for sound expansion, the capital markets will be relied on instead of curtailment.

One of the tax reforms sure at least to be proposed to the new Congress is change in allowable depreciation, particularly from basing annual depreciation on historical cost to the basis of present replacement costs. In periods of falling prices this would increase the importance of the capital markets because of decreased ability to finance by internal means—with the converse effects during rising markets. The same effect on internal financing ability and the capital market is accredited to Lifo and other methods of stabilizing inventory valuation. Acceleration of depreciation, if permitted, would be helpful in reducing the investor's risk, and thus help the new-issue market. But mainly because of the resulting provision of a "Red-Herring" excusing wage-rise demands. It is thought that depreciation-acceleration legislation will not be pressed unduly.

Reimposition of a strong version of undistributed profits taxation stands some chance of enactment, it is felt here. This of course would increase dividend distributions, but would not be as important as a flat rise in corporate tax rates in driving companies into the capital market for needed funds. Particularly in the case of smaller businesses.

It is believed that higher corporate taxes, as well as a peacetime excess profits tax, will hurt growing rather than "arrived" business, and exert a freezing effect on the corporate structure.

Higher Personal Taxes Particularly Injurious

A rise on personal taxes, which is also expected particularly in the upper brackets, will hurt the capital markets in a major way, because of the discouragement to the prospective buyers of new securities. Also this will further the individual's preference to fall within the capital gains provisions, and thus enhance the relative interest in speculative in lieu of stable income ventures, and thus further un-stabilize the economy. It is pointed out that even at present tax rates the net after-tax return on income above $22,000 is but 2.8% from present high-yielding common stocks. Higher individual taxes will further aggravate whatever inequity exists in the one-way nature of the capital gains tax with its limitation to the registration of a net loss.

Raised individual income taxes will accentuate the flow into the now available tax-exempts and thus hinder industrial financing. It is asserted by Professor Paul Howell of New York University. He also points out that the flotation of new issues in the form of bonds instead of stock will be increased because of the corporations' freedom from paying taxes on monies earned for bond interest.

While there are some differences of opinion about the results likely to ensue respectively from impending tax legislation, there seems to be general agreement that the net effect will be injurious on the corporate structure of the country as well as on the capital market although perhaps not on the latters' activity in the early future.

Foreign Exchange Controls and International Investments

By HANS A. WIDENMANN*

Partner, Carl M. Loeb, Rhoades & Co.

Governor, Association of Stock Exchange Firms

American investment banker, after reviewing causes and effects of foreign exchange controls, asserts they constitute a cancer responsible for present economic sickness of world. Holds controls are palliatives which aggravate rather than remedy world economic instability, and are therefore doomed to failure. Sees exchange controls impeding international investment and urges Latin-American nations create a favorable climate for American capital.

I am here as the ambassador for the Association of Stock Exchange Firms, the trade organization of the New York Stock Exchange made up of member firms of the Exchange. This is my first visit to South America and I accordingly am anything but an expert—on the contrary, I am here to learn and to try to understand—I can, however, say that in the very short time that I've been here I am impressed. I think I reflect fairly, whether right or wrong, the opinions of the American businessman and the potential American investor in regard to Latin America in general and your individual countries in particular. Just as there presumably are many people in South or Central America who think of the United States as one country composed of 48 more or less identical states, so a good many of us Americans probably make the mistake of considering you all pretty much alike, though I am conscious of the fact that this is, of course, not so but that you vary greatly in resources, national characteristics and potentialities and that your respective problems are all quite different. However, the basic principles governing our business — the Stock Exchange business—are the same the world over and what was said at the First Hemispheric Stock Exchange Conference last fall is just as applicable today.

Hans A. Widenmann

The outstanding development since then is that the foreign exchange problem — the so-called dollar shortage—has become more acute all over the world including a good many Latin American countries in varying degrees, so that it is now the paramount issue in our business relations, be it with Europe or with each other, to the virtual exclusion of all the matters we were discussing together last fall. As a result of the progressive widening of foreign exchange controls during the year there is even less business in securities being done between us now than was the case when we last met; the institution of the 13 types of switch sterling accounts by the London market and the prohibition against the exportation of bearer securities from England was an important contributing factor in this shriveling of the business, as a substantial part of the Latin American security business up to the imposition of the curbs revolved around the repatriation of your own issues denominated in sterling, because of the switch and other operations either directly with London or via New York which these transactions generated.

The trouble is that it doesn't make any difference whether it is we or the other fellow who is having to operate under foreign exchange controls — as long as either one of us is under such compulsion it becomes difficult or impossible to do business with each other in securities; so let us examine the underlying causes and the effects of foreign exchange controls so that we may know how to take remedial measures. Now as we all know, foreign exchange controls are usually imposed because of an unbalanced balance of payments position, which draws the foreign exchange reserve of the Central Bank down to the point where it cannot continue to impair them any further, but where for one reason or another the government is unwilling or feels itself politically unable to permit the Central Bank to take the normal remedial measures to restore equilibrium—namely, either to put brakes on the domestic economy or to permit the exchange of the currency to decline or both. Now any number of factors or a combination thereof may create such a situation; the schoolbook example is the one where a country just like an individual is living beyond its income—spending more than it is making, importing more than it is exporting—combined with an understandable human indisposition to attack causes but insisting rather on treating symptoms and in the meantime expecting that someone — anyone — should continue to lend it the money to make up the difference. In actual practice the forces at work to bring about the imbalances which lead to foreign exchange control are usually much more subtle and less obvious and develop but gradually. In our modern economic societies the erroneous governmental policies which are producing the pressure on the exchanges are not so readily recognized, with the result that governments often are encouraged and even praised for resorting to foreign exchange controls instead of being criticized and resisted, for as I shall hope to demonstrate, the suppression of the free market — the prohibition against our dealing with one another freely, be it in goods or securities or in each other's currencies, and most particularly the last mentioned, is the cancer ultimately responsible for the present economic sickness of the world.

Controls — Manifestations of Planned Economy

These more subtle and less obvious forces include such things as artificially cheap policies, unilateral full employment policies achieved if necessary by shortening work hours and hence curtailing production, and other devices which are typical manifestations of the planned economy; the war has, as we all know, upset the normal channels of trade, and one of the reasons for the tight exchange situation has been that Latin American countries find themselves unable to secure full or effective payment from the planned economies of Europe for their exports while the inability to secure European imports because of production limitations adds to the factors making for high prices at home. A parallel consideration is that in many cases the large Latin American exports during the war against which dollars or gold were accepted in deferred payment now do not bring the same quantities of goods that they would have at that time because our price level has risen. Actually the dollar value of Latin American exports to the world including each other is running anywhere from twice to five times prewar figures.

Moreover, import demands which naturally grew during the

(Continued on page 32)

*An address by Mr. Widenmann as representative of the Association of Stock Exchange Firms at the Second Hemispheric Stock Exchange Conference, Santiago, Chile, in October, 1948.

British Housing Is Planned Chaos

By WILLIAM CRAVEN-ELLIS, M. P.*

British businessman and Member of Parliament declares liberty saved from Hitler has now been taken by Socialists. Reports chaotic planning has made hopeless bungle of public housing, which is now suffering from creeping paralysis. Cites higher costs and prices by Government than privately-built units, and long delays in issuing permits.

Before I deal with some of the consequences of socialism in Britain, I would like to remind this audience that Britain was at war with Hitler for nearly six years. Now, for 12 months of that period the British Commonwealth of Nations stood alone against Germany, who had the most powerful military force in the world. Hitler's intention was undoubtedly to destroy Britain's liberty and freedom, and turn us into a slave state. He was defeated in his purpose by the united military forces of the U. S. A. and the British Commonwealth of Nations and Empire. Hostilities ended in May, 1945, and in July Britain had a general election which resulted in a socialist government being elected, but, mark you, on a minority vote of the electors.

From where Hitler left off, the British socialist government took over, and proceeded in the name of democracy to shackle British subjects with controls and regulations to an extent that the liberty and freedom Hitler tried and failed to take from us, has almost completely disappeared under socialism.

You have asked me what is happening to the housing industry in Britain under a planned economy. Well sir, true to socialist form, thousands of so-called planners have been employed by the government and the result is planned chaos.

I should point out here that the government appointed the local authorities as agents throughout Great Britain (and there are 15 hundred of them) for the housing of the people. They have made a hopeless bungle of public housing. In fact, the socialist bug has bitten the British house-building industry and it is now suffering from creeping paralysis. For some years Great Britain has been subjected to considerable ceaseless activity, and those who gave some thought to the progress of socialism in other countries had fully made up their minds, some years ago, that sooner or later we, at home, would have to accept the challenge of socialism. The 1945 general election resulted in a socialist government being elected, and from that moment the challenge of socialism was accepted in all responsible quarters.

We at home have no doubt as to what will be the ultimate result unless there is a complete reversal of policy. The goal of socialism, as well as that of communism, is control and regimentation of the people, a condition which would rob the people of their liberty and freedom. The only difference between these two menacing political forces is that the former claim, under the cloak of democracy, to achieve their objectives by constitutional means.

The communists feel that socialism is not sufficiently progressive, and would resort to force to achieve the control and regimentation of the people. This is the situation with which Great Britain is faced today.

Having had a talk with a large number of people since I came into the U. S. A., in different walks of life, I am astounded that there is not a clear appreciation of the dangers of socialism. The people of the U S. A., as I see the situation developing, require to be stirred to these dangers, and to their responsibility as free citizens, and the more the American people can learn of what has happened in Great Britain under the socialist government, the sooner will the more responsible people in the U. S. A., as in the case of Great Britain, accept the challenge and fight to preserve their liberties and freedom.

*Transcript of an address by Mr. Craven-Ellis before National Association of Real Estate Boards, New York City, Nov. 18, 1948.

Inroads of Socialism

People of the U. S. A., I find, have very little appreciation of the inroads socialism has already made into the British way of life. Already the Bank of England, coal, gas, electricity, cable and wireless, and transport are nationalized. And the bill to nationalize the steel industry is at present being debated in the House of Commons. The nationalization of this group of industries, even though it were not extended, would give a socialist government complete control of the economic life of the people. And it is a great step forward toward the socialist goal of the ultimate complete control and regimentation of the people.

Many of your fellow-citizens have said to me: "What has happened in Great Britain could not happen here." This outlook greatly concerns me because it shows there is a great deal of complacency in the political outlook of so many peope in your country.

You have asked me whether socialism is harmful or helpful to the public welfare, and whether it is providing less or more houses. Well, in the first place, let me say that socialism is harmful because it destroys individual initiative and enterprise. And it is these qualities which have given America the great power which she possesses today. And, as to whether socialism is providing more houses or less houses, let me say this: If public housing in America were ceased today, the labor which is employed on this public housing could build far more houses if it were employed by private enterprise. Private enterprise in the past has erected more houses at less cost and better houses than ever public housing authorities have provided for the people.

Chaos in Housing

You have asked me about socialism and its effect on British housing. And I have told you that the result of socialist interference in housing has resulted in planned chaos. Let us see what I mean by planned chaos. I will give you one or two examples. Now, there is no doubt about these examples. I apologize for making reference to my personal interest. However, these are facts which nobody can dispute.

In December, 1945, one of my building companies made application to the Leicester corporation for the approval to build 2,750 houses, all independent, permanent houses. Negotiations have proceeded throughout the whole of this period, and today we are no further ahead for getting permission to build those houses than we were three years ago.

Another example is that one of my industrial companies which makes machine tools desired 500 houses to house their own workpeople. The Ministry of Supply offered my company aluminium houses containing two bedrooms. The cost of these was 1,600 pounds. Now, at the same time, one of my other building companies in Britain was building three-bedroomed houses, giving a larger floor area than the aluminium house, and the cost has come out—including profit, including road charges, land, and everything — the sum is 1,430 pounds. Now here you have an example on cost where socialism is failing.

One of the conditions in Britain, so far as building is concerned, is that private enterprise has only been allowed to build one house for every five built by a local authority. In 1947 there was a change. And until July, 1948, that was a complete blank period for private enterprise. No local authority would issue a license for private enterprise to build a single home. Since July, this year, there has been a change again. This time private enterprise is still debarred, unless somebody comes along—some individual—and buys a site and then applies to the local authority for permission to build.

And, mark you, the chances are very remote because he is working on the basis of one in five. But should he succeed in getting permission, he then goes to a private builder to build a house, and it is only under these conditions that private enterprise has an opportunity of building homes.

Now another interesting point is this, just to show you now the government, the Socialist government, are doing their utmost to destroy private enterprise. We have at home what is known as a standard house, and this has 1,029 square feet. The cost which is permitted to the private enterprise builders for such a house is £1,400 in London and £1,300 in the provinces, for the same house. But here's the difference. That same standard house is being erected by local authorities but there is no ceiling price on theirs, and the results show that the houses built by local authorities are costing anything from £1,600 to £2,000. This is socialism in action. And this point alone should convince you people of the dangers of socialism.

Obtaining Permission to Build

Now, another part of the planned chaos in which Britain's building industry is, can be illustrated if I outline the procedure for obtaining permission to build. The builder, first of all, has to get his plan passed by the local authority. The local authority, we will assume, approves of the plan. From this stage it then goes to the Minister of Town and Country Planning. From him it goes to the Ministry of Works, from there to the Ministry of Transport. All these ministries are involved, and it takes months and months and months before you can get a decision as to whether your plans are approved or disapproved.

But let us assume the plan is approved. Your next step is this: You then have to apply for a license to build. That may take months. But having got your license to build, you then have to fill in dozens and dozens of forms to enable you to get your materials for building the house which has been approved many months previously. Now this procedure is disastrous to any industry, whether it be building, engineering, or anything else, and should be a clear example to you, to show you the courses which are taken, which can only have one result, and that is the ultimate destruction of the building industry insofar as it relates to or is concerned with the housing of the people.

Now, what I have told you so far should be sufficient to convince you that we are by no means

(Continued on page 43)

Can Britain Afford Luxuries?

By PAUL EINZIG

Dr. Einzig, noting demands of France and other continental countries that Britain accept their luxury items in exchange for British exports, says it amounts to nothing less than a demand for the sake of balancing France's trade deficit. Says Britain should keep her own international accounts balanced. Cites further loss of British overseas investments.

LONDON, ENG. — The battle over Britain's attitude towards luxury imports is in full swing. The British Government is the target of sharp attacks in France, and also in the United States, for its unwillingness to provide in its Four-Year Plan for the resumption of continental of the import luxuries on a pre-war scale. Beyond doubt, Sir Stafford Cripps has acquired a world-wide reputation for his love of austerity for its own sake, and the Labor Government is wedded to the Socialist "equal misery for all" policy.

Dr. Paul Einzig

It is no wonder, therefore, that the present British opposition to large-scale luxury imports is now regarded as just another manifestation of this attitude. In reality, in prevailing circumstances any responsible British government, whether Socialist or Conservative, would have to adopt the line pursued by Sir Stafford Cripps in face of the demand that Britain should live beyond her depleted means.

Those who insist that luxury imports from France and other continental countries should be resumed on a prewar scale do not appear to realize the extent to which Britain has become impoverished during the last ten years. What was left of Britain's large prewar overseas investments is dwindling rapidly, partly because it is used up to pay for the deficit of the current trade balance, and partly because British assets in Communist or near-Communist countries have been or are being seized without compensation. At the moment of writing it looks as though further hundreds of millions of pounds may have to be written off as a dead loss, as a result of the Communist victories in China. This will mean a further fall in Britain's invisible exports represented by earnings on foreign investments.

How can anyone imagine that, in spite of such heavy losses, Britain could resume her luxury imports as if nothing had changed? One of the reasons why this is thought possible in Paris is that at the present moment Britain is in fact importing French luxuries on a very considerable scale. But this is done simply because France would not be in a position to pay in any other way for her imports of goods from Britain and the Sterling Area. And even now Britain is unable to absorb a sufficient volume of French luxuries to meet the French sterling requirements, part of which has to be satisfied by special allocations under the Intra-European Payments Agreement. What the French Government demands is that Britain should import a sufficient volume of French wines, liquors, cosmetics, dresses, etc. to pay in full for an increased volume of French imports from Britain, and to leave to France a substantial sterling balance available for spending on imports from other countries. One need not believe in the "strength through austerity" policy to reject this demand as quite impracticable. In practice it amounts to nothing less than a demand that, for the sake of balancing France's trade deficit, Britain should agree to leave her own international accounts unbalanced.

One of the noteworthy aspects of the French attitude is that, while it insists on achieving a French export surplus to Britain by the end of the Marshall Aid period, in the meantime it insists on continuing to receive an import surplus from Britain and the Sterling Area. If this is done the result will be a further increase of Sterling Area balances in London, especially as Britain is pressed at the same time to divert her exports from the Sterling Area markets to Western Europe. Sooner or later a stage may be reached beyond which the Sterling Area countries will not be prepared to sell their goods against sterling. Indeed it is one of the objects of the Marshall Plan to weaken the trade links between Britain and the Sterling Area. This amounts to killing the goose that lays the golden eggs. But the demand that after the end of the Four Year Plan Britain should provide the sterling with which France could finance her imports from the Sterling Area amounts to insistence that the defunct goose should continue to lay golden eggs.

There is of course the usual argument that if only Britain agreed to import luxuries she cannot afford, the prosperity thus created would in the long run result in an increase of her exports. In existing circumstances this argument carries very little conviction. There is an uneasy feeling that Britain is made to sacrifice her own chances of recovery, for the sake of bolstering up shaky continental countries. The situation may be compared with that of 1940, when Mr. Churchill had to decide whether to use up the reserves of the Royal Air Force in a futile attempt at turning the tide in the Battle of France, or to husband these reserves for the coming Battle of Britain. It may be said without hesitation that the decision to choose the second alternative has saved the world from Nazi domination and has given the Anglo-Saxon nations the breathing space that eventually enabled them to liberate France and Western Europe. Had the R. A. F. been sacrificed in France, the Battle of Britain would have been lost, and one of the main obstacles to Hitler's world domination would have collapsed. It is really possible that in spite of the teachings of recent history responsible statesmen should now favor a solution which would sacrifice Britain's stability for the sake of a task which seems to be as hopeless as was the attempt to hold Hitler's advance in 1940?

Laing a Director

CHICAGO, ILL. — Chester W. Laing, partner of John Nuveen & Co., Chicago, has been elected a director of Columbia Bank Note Co., replacing John Nuveen, Jr., who is in Greece as director of the Economic Cooperation Administration of the United States.

Mutual Funds

By HENRY HUNT

A Costly Investment Delusion

"Ever since the first expression of the old warning—'Don't put all your eggs in one basket'—**diversification** has been generally recognized as an excellent safeguard for wealth. It is obvious that money invested in many enterprises or in many securities is automatically better protected than money that depends on the success of one or a few enterprises of the same type and that the resulting income is more certain to continue. It is so obvious that it has become dangerous because, in many cases, mere numbers have come to be accepted as a guarantee of safety.

"Agreed that, unless we use the principle of diversification in managing our investments, we are throwing away a fundamental protection not available in any other way. It seems foolish then to take only partial advantage of this protection. How can we avoid the illusory types of diversification that lull us into a false sense of security about our capital?

"Inadequate diversification—and the simplest kind to correct. Obviously if we own, say, three securities, our diversification is merely technical. Is 10 enough? Would 20 be better? Or 30 better still? Perhaps—and perhaps not. The answer to this seems to be that, as long as there are available issues unused that give the type and quality of performance we want, our diversification can be improved.

"Random diversification—the 'Shotgun' fallacy. Suppose we invest in every 10th issue listed on the exchange—or every issue that costs $20 a share. This is a reduction to absurdity—but the series of investment accidents that frequently go to make up a widely 'diversified' portfolio have about as much rhyme or reason. True diversification must have a purpose—and should be confined to the types or classes of securities that are appropriate to our objectives.

"Concentrated diversification — which is not always so easy to detect. It is apparent that if we had owned interests in a hundred ships in the late 19th century, and all our ships were engaged in the whale oil industry, our diversification would have been useless immediately upon the discovery of kerosene. Sometimes the forces that threaten a group of securities are not so easy to identify—but this group vulnerability often exists unsuspected. Many units, all of which depend upon a single broad factor for strength, are not true diversification.

"Temporary diversification—today we buy the 'best' 50 securities for our purposes—diversified by companies and by industries, and dependent on as few common economic factors as possible. What will we have next year? Certainly not still true diversification among the 50 'best.' For individual issues tend to change their characteristics—to become useful for some other purpose, or useless. We must check continuously—and when we are truly diversified, the process is the more complex. Professional supervision has proved the best method to many investors.

"Unwieldy diversification—anyone who has ever owned a considerable number of securities knows that they involve considerable management of the physical kind. There are bond coupons that must be collected. There are rights to be exercised, proxies to be made. And a dribble of income from many sources can be of considerable inconvenience, and not add relatively greater certainty. Here again, professional services are frequently the answer—and the custodian functions of a trust department are a logical and convenient solution."—Quoted from "Keynotes," published by **The Keystone Company of Boston.**

More About Plastics

"Making plastics is a much bigger business than most people know.

"This year the chemical industry will turn out more pounds of these versatile raw materials than the production of any of the metals except steel and copper. Output this year will be about 800,000 tons, leaping ahead of aluminum for the first time. The sales value of these plastics will be about $564,000,000. Back in the boom year 1929, the output was only 27,500 tons.

"Plastics are too apt to be thought of as materials used mainly to make gadgets—toys or airplane tableware for example. But it isn't this sort of business that has made plastics one of the biggest and fastest growing divisions of the chemical industry. Only about 20% of the plastics now made go into uses of this sort.

"The biggest consumer of plastics is the electrical industry which uses them for insulation, for fixtures, and for molded radio cabinets. Plastics, which the chemist frequently calls 'synthetic resins,' go in large amounts into sheets for packaging food and merchandise, into treating textiles to make them water-proof or shrink-proof, into glues for plywood for home building, and into paints.

"The striking part about the growth of this industry is that it has come about mainly by creating new uses and new products and not entirely by taking business away from some other material. Nearly every day some one bobs up with a new idea that means thousands of pounds more business for not only the plastics but also for the chemical manufacturers. For example, gas stations all over the country are blossoming out with new illuminated signs, some of them six feet across, molded plastic emblems of the Socony red horse or Shell Oil's shell. This means that acrylic type plastics, such as duPont's Lucite, once seen mainly in costume jewelry, then in bombers' noses, will take a spurt in sales.

"Or take a brand new plastic called polyethylene, created during the war for electrical insulation. After the war, along came some ingenious people who found it made cheap flexible squeezable kitchen bowls, disposable baby bottles, and drug bottles and excellent films for packaging foodstuffs. Now this newcomer is booming."—From **Chemical Fund's** "Test Tube."

A Course in Retail Selling

The New York Institute of Finance will shortly inaugurate a course on retail selling designed for mutual fund salesmen and registered representatives of member firms. With **"Doug" Porteous**, Vice-President of the **Cohu Corp.**, as head instructor, lectures will also be given by the following guest speakers:

ARTHUR WIESENBERGER
Partner, Arthur Wiesenberger & Co.

HAROLD E. AUL
Calvin Bullock

FRANK L. VALENTA
Vice-President Distributors Group, Incorporated

LOUIS H. WHITEHEAD
Partner, Louis Whitehead Co.

DOUGLAS LAIRD
Vice-Pres. & Secty., National Securities & Research Corp.

HUGH BULLOCK
President, Dividend Shares

JAMES BRIDGES
Partner, The Keystone Company of Boston

VERNON VIVIAN,
Vice-President Hugh W. Long and Company, Inc.

KIMBALL VALENTINE
Partner, Vance Sanders & Co.

We hope that many member firms will ask their salesmen to attend this series of lectures. The cost is nominal, only $10 per student.

Television Fund Reports

As of Oct. 31, 1948, **Television Fund, Inc.**, the first mutual fund specializing in securities in the field of television and electronics, reported net assets of $275,000, including $107,000 in cash.

President Chester D. Tripp comments as follows:

"Evidence on every side continues to point not only to important growth in television and electronics, but also to the increasingly vital role television and electronics can be expected to play in the overall economy. The flow of capital into the many segments of the electronics industry is increasingly significant. Television, we are confident, already is a constructively dynamic influence on our economy."

Outlook for Stock Prices

In its monthly "Letter," **The Broad Street Sales Corporation** summarizes its opinion on the stock market as follows:

"It appears likely that business will be maintained at a relatively high level, although not necessarily at recent peak activity, well into 1949 even though readjustments are likely in various fields. This suggests that earnings, and more especially dividends, also will be relatively well maintained and that good values are obtainable at the current level of stock prices, which should mitigate against a material decline from recent levels. Should it happen that under such circumstances investors' fears are eased with respect to the foreign situation and the possible threat to corporate profits by government policies, the basis would exist for a material rise in common stock prices."

Higher Profits Arise From Inflation!

By DR. EMERSON P. SCHMIDT*
Director, Department of Economic Research,
Chamber of Commerce of the United States

Pointing out higher profits, like higher wages and farm income, are result and not cause of inflation, Dr. Schmidt contends price control may retard this process but cannot stop it. Says purchasing power of workers and farmers has been seven times as potent as purchasing power in hands of corporations or dividend receivers. Looks for decline in profits and cost of living, and warns taxes above 25% of national income lead to inflation.

To some people the purpose of Joint-Committee's investigation seems to be a question of whether profits are too high, too low or just right. To others it is a question of the role of profits in the inflationary spiral. Again, it may be a question of where can the government, with promises and commitments beyond its means, find more dollars to meet its revenue requirements and the pressures for more spending.

Dr. E. P. Schmidt

Profits are high — at an all time high, both before and after taxes. The same is true of wages and salaries. Farm income is more than 300% of its prewar level.

The accompanying tabulation indicates that since prewar our national income has risen by about $148.7 billion; wages and salaries have risen $85 billion; farm income is up $20 billion; and profits are up $15 billion.

These figures, however, do not mean that the average person is **proportionately** better off, or that the worker can live three times as well as he did in 1939. The dollar has depreciated by one-third or more, since prewar.

True, production has risen by perhaps one-half or two-thirds but we have more mouths to feed, both at home and abroad. Government budgets call for some $55 billion as against the prewar figure of around $20 billion.

The phenomenal rise in our national money income, personal income, wages and profits, is due largely to the expansion of the money supply. In mid-1939, we had approximately $33 billion of currency and checkbook money, demand deposits. Today, the figure is about $113 billion. Over the decades, we have tended to have about $2.50 to $3.00 of national income for each dollar of money. The multiplication of the money supply inevitably was destined to reflect itself in the upward drift of dollar income, wages, salaries, farm prices and profits.

Once the individual or business unit has more than a certain cash balance, the owner wants to put the surplus to work, either for consumption, or by investing in earning or other useful assets. This propensity to spend or invest the extra dollars expresses itself through the market place. It intensifies the demand for goods and for labor. Unless production can be correspondingly and concurrently expanded, the relatively limited supply of goods tends to be valued at a higher and higher price figure. In other words, the increased money supply was inevitably destined to work its way into our cost-income-price structure.

Price control may retard this process but it can not stop it. The pressures will reflect themselves in either black markets or in bidding up the prices and incomes of noncontrolled sectors. Price control is a device for trying to make the price tag say something which is not true.

	1939	1947	1948*	Rise Since 1939
	(All shown in billions of dollars)			
National Income	$72.5	$202.5	$221.2	+$148.7
Wages and Salaries	45.7	121.9	131.2	+ 85.5
Farm Income	8.7	30.5	28.7	+ 20.0
Net Corporate Profits	5.0	18.1	20.3	+ 15.3

*First nine months, annual rate.

Relation of Profits and Inflation

Profits, being a residual item, what is left after all costs are met, may be either a plus or minus quantity. In 1939, profits were too low to put the total work force to work. As the economy expanded toward ceiling operations and full employment, the margin between costs and prices widened, as it always has done during recovery or inflation.

In spite of this widened margin it is clear from the previous table that both farm income and the incomes of workers have expanded far more rapidly in dollars, although not in percentages.

Insofar as our problem has been **excessive demand** in the market place, the combined purchasing power of workers and farmers has been about seven times as potent as the purchasing power in the hands of corporations or dividend receivers.

Sumner H. Slichter in his testimony before the Joint Committee (Dec. 6), demonstrated that the post-war profit figures are in part fictitious. In 1947, for example, operating profits were about $12 billion, as against the reported figure of $18.1 billion; of the latter figure, $5.1 billion represented the cost of replacing inventories; and because assets were largely depreciated on the basis of prewar costs, between one and two billion dollars of reported profits actually represented exhaustion of capital. Only $7 billion of the $18 billion were paid out in dividends and perhaps half of the $7 billion were recaptured by State and Federal Treasuries in the form of personal income taxes.

During inflationary booms, when profits mount percentage-wise it is easy and popular to blame inflation on the profit rise. Lord Keynes, the spiritual father of the deficit-spending policies during the 1930's, had this to say about the situation after World War I:

"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. . . . In the latter states of war all the belligerent governments practiced from necessity, or incompetence, what a Bolshevist might have done from design . . . the governments of Europe, being . . . reckless in their methods as well as weak, seek to direct on to a class known as 'profiteers' the popular indignation against the more obvious consequences of their vicious methods. These 'profiteers' are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element . . . who in a period of rapidly rising prices cannot but get rich quick whether they wish it . . . or not. By directing hatred against this class . . . the European governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices."

During the current post-war inflationary boom we have had in our country similar attempts to put the blame for inflation on what Keynes calls the "entrepreneur class," a tactic more impregnated with Marxian ideas of the class struggle than is commonly realized.

Actually in a sense we are all to blame—our method of depression and war deficit spending which we all accepted, more or less, is, of course, at the root of the rising prices.

With some $225 billion national money income, every dollar of which gets or tends to get spent for something, it is hard to see how the current high prices can be ascribed to the 9% of the purchasing power taking the form of profits, and ignore the other 91% (wages, salaries, farm income, etc.) which is in the market fighting for goods and services.

Profits and Cost of Living May Be Declining

There is some reason to believe that our economy, our wage-price-cost-income structure, has now about grown up to our inflated money supply. Something like the normal historical pattern between the national income and the money supply has now been restored. Inflationary pressures are abating. The cost-of-living index has shown signs of leveling out, and in the last month the index has actually declined by a very small fraction after having been stable in the previous month. Similarly, wholesale prices, on the average, are showing signs of having reached their ceiling. There is a growing conviction that we are now confronted with the probability of either greater stability or actual recession. If such recession is threatening, this certainly is not the time to reduce, by further corporate taxes, the incentives to put men to work. The wage motive will cause a man to take a job if the profit motive first creates the job.

Recession Pending

In the past three years we have heard a good deal about "soft spots" in the economy. As early as 1946, night clubs, costume jewelry and the fur industries were facing readjustments. We have experienced in 1946-48, what has come to be known as "serial readjustments" or "rotation readjustments." Such soft spots if they come rapidly can become cumulative; but if plant after plant and industry after industry makes its readjustment pricewise and in terms of its product-mix, etc., it is conceivable that major recessions for the whole economy can be obviated.

Pipelines are filling. "Sales" are becoming more numerous. Fourth-quarter earnings of a growing number of concerns are below previous quarters and below the same quarter of last year. There is general agreement that the current high level of profits will decline in 1949 if present conditions continue into the new year.

In this sensitive situation, the mere threat of higher corporation taxes is already causing hesitation. Mr. Robert G. Dunlop, President of the Sun Oil Company, testifying before the Joint Committee, said:

"The matter of rising costs is a serious problem taken by itself, but add to that the reported prospect of an excess-profits tax, and no person in my position could help having grave misgivings about our expansion program at Toledo. I am frank to state that if Congress should pass an excess-profits tax, all plans for expanding our company would immediately have to be reconsidered."

Many other business executives are experiencing similar uncertainty. Whether higher corporate taxes would, in general, have this effect is not determinable at this stage. The reaction of the businessman will be governed largely by whether he thinks he can maintain a reasonable return on new investment or whether it will be too risky.

In the short run, when markets are strong and demand is firm, excessive taxation, particularly a high excess-profits tax, or any other tax which falls particularly heavily upon **increments** of profit, undoubtedly weaken an employer's cost-consciousness. Waste is encouraged, costs are less closely scrutinized and inefficiencies multiply, and the employers' natural resistance to upward wage drives will be greatly weakened. For this reason in the short run, additional taxation under the conditions described may be an inflationary stimulant. An equitable excess-profits tax is not only almost impossible to design and to administer, but is without equity as between the small and other stockholders, and so lacks moral sanction.

There is a limit to taxes in a free society. The incidence of corporation taxes is not well understood by our best and most impartial experts. Probably, a rise in corporation taxes is inflationary when markets are strong and money is abundant. When markets are weak and confidence is lacking, corporations' taxes are just one more cost and hurdle to be overcome and can easily become deflationary especially in a sensitive situation as the present.

The administration is under terrific pressure to spend more money, a pressure which it, itself, has helped to generate by promises and more promises to articulate pressure groups.

"25% Tax-Take" Warning

Objective experience in numerous countries in the world shows that when once the total tax-take approaches or equals 25% of the national income, the democratic state goes into an inflationary revolt. This seems to be an economic law. Federal, state and local taxes now absorb 25% of our income—the critical level.

If Congress imposes new taxes along with the inevitable increase in 1949 in state and local taxes, the American people may not sit idly by. The pressures developed may reflect themselves in fiscal and monetary policies which lay the basis for further inflation. This seems to be the verdict of history. Just why 25% should be the critical level is not clear, but evidence supports it.[1]

The crying need is for statesmanship which will convince the American people that they have passed the margin of safety and are now entering the critical stage. While these pressures on our economy for more and more constitute, indeed, a high compliment to the productivity of our economic system, in the short-run further production increases are limited by our ceiling operations and full employment. Rising wage demands, rigid maintenance of existing farm income and higher and higher taxes—all in a full employment economy, with only about 2% or 3% annual increase in goods and services, cannot be safely met. Taxes divert resources from the people to government. The notion that taxes on "business" or corporations affect only investors or stockholders is not valid and can become a dangerous delusion in terms of the people's welfare.

So long as markets continue strong, the developing pressures will at some time reflect themselves in policies which lead to further dilution of the money supply and the inevitable rise in prices. That is what history indicates.

Conclusions

Reported net profits today constitute a normal peacetime relationship to national income. If we correct reported profits for the non-recurring inventory mark-up and the under-depreciation of wearing assets, profits are below their normal level relative to the size and magnitude of the rest of economic activity.

Whether higher taxes on business would send the economy into a tailspin or stimulate further inflationary pressures, would be determined by the relative strength of the deflationary-inflationary forces. The growing number of filled pipelines and soft spots suggests that additional tax levies might be deflationary at this time.

In a free democratic society the individual has a strong preference for spending his income in his own individual way. When once the total tax burden approaches or equals 25% of the national income, the growing restlessness, the rising pressures, and the difficulty of making both ends meet, sets in motion force in the direction of loose fiscal policy which translates itself into further inflation.

The greatest contribution which the government could make to the stabilization of our economy and lower prices must take the form of vigorous pruning of inflated government expenditures. So long as inflationary pressures persist the best antidote is a budgetary surplus with which Federal Reserve Bank-held debt is paid off. This in turn will check credit expansion and help foster the readjustments which we still face.

*Statement presented by Dr. Schmidt to the Subcommittee on Profits of the Joint Congressional Committee on the Economic Report, Washington, D. C., Dec. 21, 1948.

1 "A Survey of Contemporary Economics," by Howard S. Ellis et al., The Blakiston Co., 1948, page 197.

Business Man's Bookshelf

Business Finance — Carl A. Dauten—Prentice-Hall, Inc., 70 Fifth Avenue, New York 11, N. Y.—cloth—$6.35.

European Economic Situation—1948, The — Frank Sweeney—American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y.—paper—50c.

More State Aid or More Local Taxes? — Tax Institute, Incorporated, 150 Nassau Street, New York 7, N. Y.—paper—50c.

Mutual Savings Banks in the Savings and Mortgage Markets— John Lintner—Harvard Business School, Boston 63, Mass.—cloth—$6.50.

The Future of Textiles

By DR. JULIUS HIRSCH*

Dr. Hirsch expects in early future: little change in price level; military expenses and foreign aid will not exceed $23 billion; fourth-round wage increases will not raise nation's payroll by more than third-round's $8½ billion; and national productivity will continue normal 2% increase. Advises textile industry to concentrate on low-priced items; scrutinize costs; and prefer liquidity to profitability.

I

Our national economy, as a whole, is running in the highest gear possible with an employment of around 60.134 million people—which is almost a million more than a year ago—and our gross national product is at the rate of the almost astronomic figure of $260 billion (See Table I). Nevertheless, most of the business world is somewhat jittery.

Julius Hirsch

More than other business lines, most of the textile business has become nervous and with good reason.

(a) The prices of cotton goods are down at the OPA levels, and some of them even below.

(b) Layoffs are reported from various parts of the country and

(c) Clearance sales have begun on a much larger scale than usual before Christmas.

After eight years of undoubtedly good and partly splendid business, what have we to expect?

To answer this question, we will have to discuss these aspects:

The textile business is part of our whole economy Its fate is closely tied to the general course of the business cycle. We have to find its trends in the next six to nine months.

The textile sector is, however, subject to its own specific conditions. We have to look at them.

The textile business is, moreover, greatly worried about such possible governmental measures which the government might apply, as higher taxes, especially excess-profits or higher corporate taxes; some type of price control and of rationing and allocation. I will try to tell you what I expect will be done in this direction in the near future.

II

What Is Ahead for Business and the Business Cycle

Inflation, Deflation or Restabilization?

During the Election Compaign, President Truman insisted that if the Republicans would remain in control of Congress and gain the Presidency, "prices must go up and up and up." Therefore, whatever we may think about the popular slogan of a "mandate" which he got from the people, he has to make good these promises if he can. He promised:

to prohibit the price level from rising,

to prohibit farm prices from falling below the support levels; at the same time,

to improve the purchasing power of the wage earner through higher minimum wages and indirectly by removing inequities,

to maintain full employment, and

to prohibit excess-profits from developing.

Which Trends Are Discernible for the Next Months to Come?

We will try to evaluate additions and decreases to be expected in the national purchasing power in 1949 In doing so, we assume:

(a) that the price level, as a whole, will not change much during the next weeks;

(b) that in 1949 the military expenses and foreign aid together will not increase to more than the $23 billion announced by the President and Professor Nourse ($15 for defense, $8 for foreign aid):

(c) that the announced fourth round of wage increases will not claim more in additional dollars that last year when the "third round" raised the nation's payroll by $8½ billion;

(d) that national productivity will increase at its normal rate of 2% per annum.

Most additions to the purchasing power are likely to begin in the latter part of 1949, while the decreases will partly start at an earlier time.

If this picture would come approximately true, we would neither be headed toward inflation, nor toward a sharp recession, but toward a

Restabilization Economy

This certainly would not mean anything bad in itself. It would only mean that the rapid progress of prices, wages and perhaps also the expansion of the economy — 60% since 1939, of which 10% is for armament and foreign aid—would peter out. This, however, might be felt adversely by a good deal of business, and among them the textile business. Such a restabilization would have, namely the consequence that some business lines which have gained relatively much during the period of scarcity may be somewhat reduced, while others may still expand. Nondurable goods, as a whole, still claim more than 40% of our national expenditure, while in 1929 it was 36.3%. It means that the profit rate, as a whole, will certainly not be maintained at the 1946 to 1948 levels, whatever business or government will do.

As, for seven consecutive years, we had an almost incessantly increasing price level and volume of sales, such a leveling off, such a "restabilization economy" might be comparable to an airplane which has increased its speed gradually to 350 miles an hour and suddenly does not increase it further. The speed is still terrific, but for those flying in the plane, it seems rather a setback.

Even if the national income, measured in dollars, were still to rise in 1949; the rise would not be steep, since: while the higher wages, which we expect, will mean a higher dollar volume of total sales, this free spending will come mainly later in the year and will be confined to the workers who really get the increased wages.

The announcement of excess-profit taxes, higher wages and the threat of price controls will probably curtail private investment. Less investment means less income for the workers.

There may be some deferment of buying to wait for the price reduction rabbit which many people expect President Truman will pull out of his hat. I'm not inclined, though, to over-estimate its effects. But there might be another more serious reason behind the recent slowing down of business: I call it **the resistance of the weakening last quarter of the population.**

While prices were going up, labor's income, as a whole, followed the price increases but to different degrees. Miners are now getting 170% of their prewar purchasing power, most textile workers' wages may also have come up to the price increases, some other groups have not. Farmers, as a whole, are receiving nearly twice as much in purchasing power as before the war, but the one-quarter of the population which is neither farmer, nor wage earner, nor gets profits from a business enterprise, is losing ground. These are not only the people living on fixed income like social security, pensions, and life annuities, but part of the white collar workers and part of the middle classes which used to have a higher than norma standard of living, and who are now belatedly reducing their standard of living. Their spending had been on an above prewar rate. When war and overtime pay ended, savings were used. Savings are also used up by many in the weaker income groups which thus have to go back to their prewar buying habits and can spend less than in the past years on clothing and home furnishings. The weak quarter of the nation certainly does not stage a buyers' strike. But their vanishing savings and the lower purchasing power of their incomes may easily be decisive for the profits in many consumer goods lines.

I do not expect a sharp recession, nor do I expect very substantial unemployment, at least not for the next seven to eight months to come It is practically in the hands of the administration, with its overwhelming majority in Congress, to prohibit serious unemployment from developing by **large scale public works.**

I don't doubt that the present administration will turn toward accelerated public works quicker than a more conservative one would do. But, **it takes more time** to get public works going than most people, even those in the administration, **think it will.**

III

The Textile Situation in the First Half of 1948

The textile business is in a somewhat more **difficult** position than many other industries. I read with great pleasure the forecast made by a prominent speaker before a Textile Institute two weeks ago saying, "There is no reason why we should not continue to thrive and enjoy a reasonable measure of prosperity." The "reasonable measure of prosperity" has something of Einstein in it, namely, a **relativity.** I certainly do not look ahead to a period of depression or recession, but if I had to plan for a business, I would warn my friends of the textile industry and trade that they may be somewhat sliding into a position — I would not say between the devil and the rough sea, but between a somewhat rough sea and three medium-sized devils: By the rough sea, I mean a **surplus situation with some of the most important raw materials**; the three devils are these: First, **narrowing markets**, dwindling exports, and certainly not increasing unit consumption at home. The second devil is threatening wage **increases**; and the third devil is the **government promises of higher taxes**, lower profits and mild controls. In spite of all that, you can have a moderate degree of prosperity, but I would headline it: Prosperity with caution.

(Continued on page 40)

*A speech by Dr. Hirsch before Women's Apparel Chain Association, Inc.

Canadian Securities

By WILLIAM J. McKAY

The amazing virility of the Canadian economy was never better demonstrated than during the past year. At this time last year a foreign exchange crisis of alarming magnitude necessitated the imposition of severe trade and exchange restrictions. Canada was obliged to resort to European-type austerity measures the effect of which permeated the entire Canadian economy. Fears were then entertained concerning the stability of the Canadian dollar, and the austerity program in its initial stages provoked widespread criticism at home and abroad.

Shortly thereafter, however, the austerity measures began to produce constructive results. The first quarter's exchange reserves figures indicated a substantial improvement from the dangerously low level of $460 million registered at the end of 1947. The level of the Dominion's reserves of gold and U. S. dollars for the first nine months of this year is even more remarkable. On Sept. 30, last the exchange reserves reached a total of $854 million as compared with $501 million shown at the same date in 1947. The net improvement of $353 million in the nine-month period includes $150 million borrowed from a group of U. S. insurance companies, but the actual gain of $203 million during this period compares with a net loss of gold and U. S. dollars during the whole of 1947 of $743 million.

This revolutionary change for the better in Canada's balance of payments vis-a-vis this country is largely due to a notable increase in exports and a marked decrease in imports. As a result, in comparison with last year, the deficit in trade with this country for the nine-month period has been reduced by $452 million. During the same period the surplus in trade with all countries has risen from $135 million to $261 million. On the strength of these figures the Dominion Minister of Finance was able to announce a further relaxation of the restrictions on imports from the United States. A similar healthy condition is also evident in the Canadian internal balance of payments. During the first nine-months of the year the surplus of revenue over expenditures is estimated to be approximately $560 million.

Although some misgivings have been expressed concerning the decline in Canadian exports to British markets this is merely a symptom of the overall healthier condition of Canadian foreign trade. The 1947 exchange crisis was instrumental in destroying Canadian complacency concerning the chronic imbalance of foreign payments—large deficits in trade with this country offset by larger surpluses in trade with the British Commonwealth. The successful results produced following the enforced reorientation of the Dominion's trade policies, and the institution of the austerity measures, are clearly evident following an examination of current Canadian foreign trade statistics.

That this remarkable success has been achieved in such a short space of time is due in large part to the unrivaled fundamental strength of the Canadian economy. Exports to this country could not have been increased on such short order in the absence of an abundance of readily available natural resources. This basic factor constitutes the major determinant of Canada's economic future. As the world demand for cheap industrial necessities continues to outstrip the available supply, Canada's amazing wealth of natural resources will be called upon to an ever increasing degree. With the full exploitation of the almost limitless wealth of the Dominion's priceless possession—the two million square-mile area of the fabulously mineral-rich Laurentian Shield — Canada will enter a new era of unprecedented prosperity.

During the week there was negligible interest in external bonds but the internals continued in steady demand. Free funds rallied sharply following the cessation of special year-end liquidation; continued investment demand is now likely to exert a greater influence in this narrow market. Among the stocks the senior gold issues again met with investor support motivated by the desire to secure protection against a possible general business decline. Western oils were also active following the reports of three new wells in the Leduc area. Anglo-Canadian rose to a new high at $4.75, and Calgary and Edmonton, Home Oil, Calmont, Globe Oil, Leduc West, Okalta, and Pacific Petroleum registered notable advances. The base and ferrous metal issues were likewise firm with Consolidated Smelters, Steep Rock, and Labrador Mining & Exploration the most prominent performers. Industrials were irregular and mostly lower but Canadian Vickers reached a new peak following favorable dividend reports.

Laird Co. to Admit

Laird & Company, members of the New York Stock Exchange, will admit Alfred J. Nobel to partnership as of Jan. 6. Mr. Nobel will make his headquarters in the firm's New York City office, 61 Broadway.

What Stock Market Under Coming Administration?

By WHITMAN C. HAFF

With Ward & Co.

Writer points out Democrats are not unanimous in following Truman proposals and new Administration will find difficulties in obtaining action for fixing price controls and repeal of Taft-Hartley Act. Sees no price inflation in stock market.

The decline of some $6,000,000,000 in security values since the Election was undoubtedly caused by the bewilderment, fear and confusion of investors as to what the future might be under the new Administration. Among these tears three are, perhaps the most outstanding: The repeal of the Taft-Hartley law, restoration of the Excess Profits Tax and Price Controls.

It is inconceivable, however, to believe that when the new Administration comes into power next January it will start, at once, to destroy the greatest business prosperity this country has ever known.

Even though the next Congress will be Democratic there are still many Democrats and many Republicans who do not see "eye to eye" with the President on many of his campaign promises and who will, undoubtedly, give very serious consideration before voting for any measures that are apt to "upset the apple cart" of the present business prosperity.

The Associated Press recently took a poll of the members of Congress to find out where they stood on certain important issues that are likely to come up for legislative action next year. Replies to all, or some of the questions, were received from about half the membership of both Houses. These replies indicated strong backing for such issues as the Marshall Plan, repeal of the Taft-Hartley law and for a policy of farm support prices. However they also revealed a definite lack of enthusiasm for Presidential authority to reinstate price controls and rationing. In this regard the questionnaire asked: "Do you favor giving the President power to fix price controls and allocations?" Of the 262 members who sent in replies 200 took a definite stand on the issue. Of these 93 Democrats and four Republicans replied "Yes." On the other hand 27 Democrats and 76 Republicans, or a total of 103, answered "No."

This may well prove that the new Administration will find many difficult roads for them to cross before they are successful in obtaining favorable action on many of the important issues that are to come before the Congress next year.

There are times when the Stock Market often "counts its chickens before they are hatched" and this could possibly be that time.

It is difficult to recall when stock values have been so depressed and, at the same time, earnings, dividends and quick asset values at their highest in history.

Steel operations have broken all records in the history of the nation in peace or war.

Automotive production has risen in all groups and the backlog of orders is still showing no signs of decreasing according to a well known authority.

Electricity output has also broken all records indicating the high rate of industrial production.

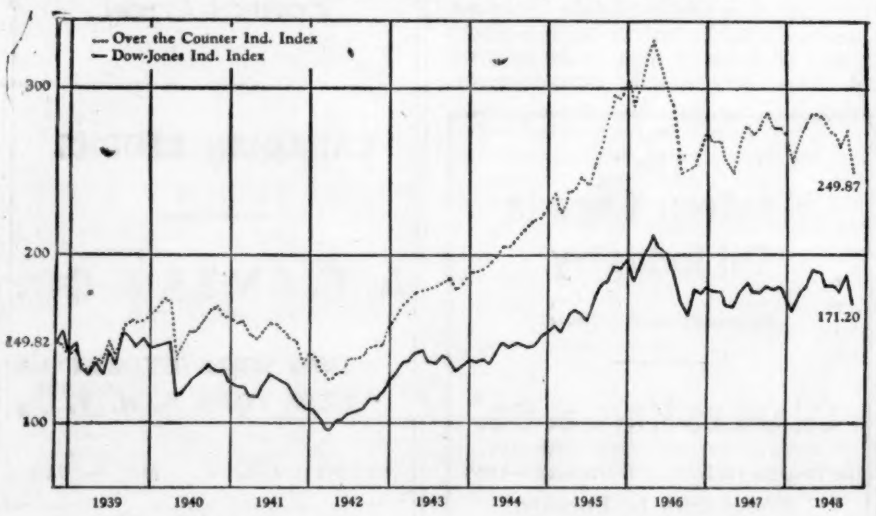
It is interesting to note that one of the leading newspapers recently carried an article on the Dow Theory which hundreds of thousands of people follow. The article stated that "had the Dow Theory been followed over the past two years the investor would have consistently lost money on each 'signal.' . . . Its recent history indicates that to have traded exactly contrary to the Dow 'signals' would have been the only way to have made a profit."

The stock market is the one market in all the business world where there has been practically no inflation of prices, while business all over the country has been enjoying great prosperity. It is a situation, it is believed, in which few can recall anything similar.

Compares Unlisted Index With D-J Averages

Loewi & Co. of Milwaukee, Wis., on basis of National Quotation Bureau's new index for unlisted stocks, hold unlisted issues outdistanced listed issues in last 10 years.

In the Dec. 15 issue of Loewi & Co., Milwaukee, "Business and Financial Digest," a comparison is made of the relative performance of the listed industrial stocks, as indicated by the Dow-Jones Industrial Averages, and the new index for unlisted stocks as compiled by the National Quotation Bureau. To make the comparison there was taken a ten-year period, starting Dec. 1, 1938, and ending Nov. 30, 1948, these being the most recent figures which could be converted to the chart given herewith. The unlisted stock index was adjusted to start at the same level as the Dow-Jones Index. During the ten-year period the Dow-Jones Average rose 21.4 points or 14.3%, and the over-the-counter average rose 100.05 points or 67.0%.



Railroad Securities

One of the most pleasant December surprises came in the form of a declaration last week of an extra dividend of $7.50 a share on New York, Chicago & St. Louis preferred stock, to be payable next March 15. Just prior to this action by the Board of Directors the stock had been under some pressure. The sharp recovery of the preferred stock following the announcement, and the particular strength displayed by the common shares in the closing sessions last week, afforded striking evidence that the move had not been expected.

Earlier this year it had been announced that the road would embark on a program for reducing its substantial preferred dividend arrears through cash payments. Before that it had been hoped that they could be eliminated through a stock recapitalization, presumably in conjunction with a merger of the controlled Wheeling & Lake Erie. Under the cash payment agreement it was announced that the company proposed to utilize for this purpose at least 20% of net income remaining after sinking funds and the regular $6.00 preferred dividend. In line with the new plans two extra dividends of $1.50 each were paid on July 1 and October. These distributions reduced the arrears to $81.00 a share.

New York, Chicago & St. Louis has been doing a particularly good job this year. It is traditionally an economical property to operate. It has a preponderance of through freight which results in a relatively long average haul. It has very little branch line mileage. Its terminal situation is favorable. It does little l.c.l. freight business and its passenger traffic is of minor importance. All of these considerations work toward a low operating ratio. These same considerations, which are permanent and inherent in the property and territory served, have also had a favorable influence on traffic and revenue trends. The road has been less vulnerable than many other carriers to the inroads of highway competition.

For the 11 months through November 1948 gross revenues amounted to just over $100 million, up from $3,931,047 a year earlier. Despite higher wages and fuel costs the transportation ratio for the period was cut by more than three points, to 34.9%. This was a fair bigger cut than was realized by the industry as a whole. With the wide increase in revenues and continued strict control over expenses net income was almost double that of the preceding year at $14,126,-597. Per share earnings on the preferred soared to $39.17 compared with $20.11 for the like 1947 period. Earnings for the full year should come at least to $45.00.

Another favorable aspect of the Nickel Plate picture is its relationship with the controlled Wheeling & Lake Erie. Originally it had been expected that the two properties would be merged. When it was decided that a stock recapitalization of Nickel Plate to eliminate the arrears was not immediately feasible the merger idea was dropped. Instead it was decided to lease the Wheeling properties to Nickel Plate. This lease is now up before the ICC and it is generally expected that that body will give its fairly speedy approval. Consummation of the least would add materially to Nickel Plate earnings and thus hasten the process of paying off the dividend arrears.

At the same meeting at which the $7.50 extra dividend was declared, directors of Nickel Plate appointed a committee to re-examine the possibility of arriving at some stock recapitalization plan. It is believed, however, that there is no intention of attempting such a step in the near future. Rather, it is expected that the possibilities will be explored with the aim of having some proposal ready for submission when the arrears are further substantially reduced, perhaps to around $40.00 a share. In the meantime, and even if such a plan should be delayed another two years or so, analysts have been recommending the preferred shares as one of the most attractive income producing stocks in the rail field.

With recent declaration of the $7.50 extra, holders of the stock are presumably assured of dividends, including the quarterly regular disbursements, of at least $13.50 a share in 1949. As a practical matter if there is no unforeseen and sharp turn for the worse in the company's affairs there should be an additional extra, or extras, later next year. Moreover, even when, and if, dividend arrears should be reduced to around $40.00 through substantial cash payments the remaining claim should be worth at least what the stock has recently been selling for.

Sees Signs of Increasing Stability

Guaranty Trust Co. of N. Y. in year-end issue of "The Guaranty Survey" says reports indicate an approaching balance of demand and supply in numerous divisions of industry.

Commenting on business and financial conditions at end of the year, the "Guaranty Survey," monthly publication of the Guaranty Trust Company of New York, states "aside from the usual seasonal influences, stability has been the main feature of the business situation." Continuing, the "Survey" adds:

"Industrial output in most lines has been maintained at high levels. Retail trade, after registering a succession of weekly declines below the 1947 figures, has shown a firmer tendency. Security prices rose moderately in the early part of December and, in general, have held their gains during the remainder of the month. Commodity prices have continued to decline irregularly. Reports indicating an approach toward balance between demand and supply in numerous devisions of industry have continued to appear, with scattered instances of curtailment of operations. The latter, however, have been too few and too limited in scope to have an appreciable effect on the situation as a whole.

"The trend toward a buyers' market has been most noticeable in 'soft' goods, although some producers and distributors of durable goods have reported a similar tendency. An orderly return to normal competitive conditions in the paper industry has been noted for some time. Stocks of bituminous coal are larger than at any other time since before the war; the six-day week has been discontinued almost throughout the industry; and many mines are reportedly operating only three or four days a week. A Congressional subcommittee was informed this month by Clarence Francis, Chairman of General Foods Corporation, that food manufacturers find 'some soft spots' developing in the sellers' market.

"In durable-goods industries also, some recent reports emphasize the trend toward balance between demand and supply. The sellers' market in automobiles now appears to be limited mainly to passenger vehicles, with most types of trucks available in adequate numbers. Trade reports indicate that producers of some building materials anticipate a period of severe competition in the near future. Unofficial surveys indicate that 'gray-market' operations in a number of industries, including steel and automobiles, are becoming less profitable as a result of sustained high production and increasing consumer resistance. Sales of some electrical home appliances and some types of industrial equipment are reported to have registered sharp declines."

Lubetkin Heads NY Corp.

The election of Lloyd E. Lubetkin as President and Director of the New York Majestic Corporation, which owns the 30-story Majestic Apartments Building, one of New York's largest, was revealed today in the announcement of the election of a new board of directors and company officials. Edward M. Benton was elected Vice-President, Secretary and a Director of Majestic, and Sidney M. Davis, Treasurer and a Director, and these three men constitute the board. Mr. Lubetkin is a partner of Seligman, Lubetkin & Co., Inc.

Lloyd E. Lubetkin

Eberstadt Chairman; Simond President of F. Eberstadt Co.

Ferdinand Eberstadt has been elected Chairman of the board of F. Eberstadt & Co. Inc., 39 Broadway, New York City, Maynard E. Simond has been elected President and Joseph T. Dineen a Vice-President.

Mr. Eberstadt, who has been President of the investment banking firm since it was established in 1931, will remain active in the business. During the war he served as Chairman of the Army-Navy Munitions Board and as Vice-Chairman of the War Production Board. Since the war he has continued active in public service, having directed the Army-Navy unification studies, working closely with Bernard Baruch on the United States Atomic Energy Commission and as head of the Hoover Commission sub-committee which recently submitted its report on an administrative reorganization of the national security organization.

Mr. Simond has been Vice-President of F. Eberstadt & Co. Inc. since 1934. He is also a Vice-President and director of Chemical Fund, Inc. and a director of various industrial concerns, including American Barge Line Co., Chas. Pfizer & Co., Inc., Standard Products Co. and the Valspar Corp.

Mr. Dineen, who is a director of Roosevelt Oil and Refining Corp., has been associated with F. Eberstadt & Co. Inc. since 1944.

J. R. Timmins & Co. To Admit Colin Rankin

J. R. Timmins & Co., members of the New York Stock Exchange, will admit Colin Rankin, manager of the Montreal office, to partnership in the firm on Jan. 6.

Effects of Possible Political Developments on Business

Charles F. Roos, President of Econometric Institute, says excess profits tax on increase in corporate tax would accelerate decline in capital goods production, while imposition of effective price control would mean lower profits generally. Sees action already taken against inflation leading to some business decline in 1949.

In an address entitled "Methods in Forecasting a Firm's Business," delivered before the American Statistical Association at Cleveland, O., on Dec. 28, Dr. Charles F. Roos, President of the Econometric Institute, Inc., of New York City, focused attention on possible political developments that may change the business outlook. Commenting on this, Mr. Roos stated:

Dr. Charles F. Roos

An excess-profits tax, as proposed by some Congressmen, would be serious in its implications. In the peacetime economy that I am assuming, such a tax would sharply accelerate the decline in capital-goods production that has already begun. An excess-profits tax yielding $4 billion per year would lower the demand for industrial construction by $0.7 billion and for domestic producers' durable equipment by $3.5 billion per year; it would directly cause a 7-point decline in the Federal Reserve Index of Industrial Production and, indirectly, an additional 5-point decline. Collateral effects would lead to total unemployment of 4 million.

An increase in the normal corporate tax at this point of the business cycle would likewise adversely affect the demand for capital goods and industrial construction. With supply and demand already about equal and excessive Treasury receipts draining purchasing power from the consumer for debt retirement, it would be difficult, if not impossible, for the average business to pass on an increased corporate tax to the consumer. Of course, if the proceeds of such a tax were used to finance production of capital goods, either as combat material or for export, the deflation could be avoided. Otherwise there would be increases in unemployment in almost all industries.

Effective Price Control

As profits expand, business outlays for new plant and equipment expand. As they contract, business outlays contract. Economists for ages have recognized that profits represent the incentive function of business.[1] These profits, of course, arise because the selling price exceeds the cost of production. Consequently, he who controls prices controls profits and so the incentive function of business. It is this situation which makes government control of prices equivalent to government control of investment, inventories, employment and other segments of the economy.

As the price control techniques in Nazi Germany evolved from a supervisory stage to the more active stage of price formation, increasing emphasis was necessarily placed upon the cost of production. The price supervisors correspondingly intervened more frequently in the field of profits. Price policies ultimately were governed by the principle of "economically justified price" based on "economically justified costs."[2]

"Diversion into profits of the largest possible part of the income generated by the manufacturing economy was considered desirable as an efficient means of capital formation, especially in view of the fact that a major part of such profits was retained as corporate savings."[3]

Effective price control in a peacetime economy would mean lower profits generally, as well as decreased production of consumers' goods. These declines, in turn, would result in lower demand for capital goods and construction.

An Increase in the Interest Rate

The Federal Reserve Board has power to determine the interest rate by controlling the reserves of banks. During the past year it has taken three actions to tighten credit conditions and so raise rates: in February, in June, and again in September. Each rise in the interest rate has meant a lower demand for capital goods, industrial construction, and residential building. The reaction on demand is, however, delayed six months.[4]

A Sharp Reduction in Military Expenditures Without a Corresponding Reduction in Taxes

What is not generally realized is that by far the biggest part of military expenditures simply represents a transfer of activity from civilian to military channels. Military personnel if in civilian life would consume food, clothing, drugs, bedding, shelter, etc., in greater quantity than in military life, and military pay is hardly a substitute for civilian pay at present levels. Only the military expenditures for equipment produced by plant and personnel which would not otherwise be busy, e.g., plane plants and shipyards, tend to sustain business activity.

The transfer from civilian to military channels in 1948 was being accomplished by taxation, which transferred income from civilian channels to military. Consequently a sharp cut in military expenditures **without any change in taxes** after, say, June, 1949, would lead to substantial declines in national and disposable income and corporate profits. These declines would mean decreased demand for capital goods, construction, and consumers' durable goods, and hence unemployment. Income and employment could, however, be sustained in the face of a cut in military expenditures provided a corresponding cut in taxes were enacted about three months prior to the reduction in expenditures.

In brief, it appears that action already taken by government officials to arrest inflation will cause some business decline in 1949. The adverse effects of this, it is to be hoped, will temper the enthusiasm for some additional measures which, if they materialized, would lead to serious corrections even in the face of increased military expenditures.

1 Even Karl Marx, who was so critical of surplus-value (profits, interest, rent), recognized this point. On page 213 of the London, 1912, printing of the English translation of *Das Kapital* we find the statement: "Whenever a society possesses a monopoly of the means of production, the labourer, free or not free, must add to the working time necessary for his own maintenance an extra working time in order to produce the means of subsistence for the owners of the means of production."

2 Samuel Lurie, *Private Investment in a Controlled Economy*, Columbia University Press, 1947, page 164.

3 Lurie, *ibid*, page 153. See also C. F. Roos, *NRA Economic Planning*, Bloomington, 1937, pp. 305-342. for a description of NRA efforts in the direction of price and cost control.

4 See C. F. Roos, *The Demand for Investment Goods*. American Economic Review, Vol. XXXVIII, May, 1948, pp. 311-320; or *Business Week*, Oct. 23, 1948, page 128.

U. S. Cannot Supply World Forever

By FLOYD A. ALLEN
President, Floyd A. Allen & Co., Inc., Los Angeles

Mr. Allen, asserting our industrial machine is getting worse, attacks our foreign policy of acting as fountainhead to supply shackled world's needs. Says our "giving" is reacting unfavorably both to ourselves and to recipients, and real Americans are getting increasingly resentful of a wasteful and extravagant foreign policy that endangers our own business stability.

There is a little rumble in the motor, a little grind in the gears of our national industrial machine that is annoying. It seems to be getting worse, if anything, rather than better. Writers and commentators who usually come up with suggestions to cure almost any kind of maladjustments are beginning to notice it and with their follow-the-leader instinct show an inclination to predict a crackup during the Truman administration. They infer that the "fools' paradise" in which we now live must yield to the forces of realism before very long.

Floyd A. Allen

What are these forces which demand recognition? They are simply natural laws that, whether in the field of personal health, merchandising, corporation management or national solvency, can be flouted with seeming impunity for longer than one would think possible but which ultimately exact their toll.

Today our government agencies are in some cases following practices that to a rapidly widening segment of ordinary American citizens appear ridiculous and ruinous. This resentment does not stem from political bias but from a deep seated conviction that the same sound essential principles of fairness and two sided justice must be applied through the whole gamut of business, big or little, whether individual or company, private or Federal. These principles are so primitive that they are too often ignored because of their very simplicity. The penalty for their neglect is always levied.

That stubborn fact is causing thoughtful comment among fairly intelligent people as it applies to our foreign policies. How can a mere handful of ordinary and quite mortal men, however richly endowed with temporary government authority and clothed in the purple of government prestige, violate the most common rules of

(Continued on page 42)

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

In a matter of weeks now most of the major fire and casualty insurance companies will be issuing their statements of operations for the year 1948.

After several years of disappointing underwriting results and impaired earnings, indications are that during 1948 adjustments in rates and losses were attained which should permit most companies to show a favorable underwriting experience for this year. Although fire losses, one of the most important factors in determining underwriting results, have continued to gain over previous years, the rate of increase has slowed considerably. Also, premium volume has continued to rise with the benefit of numerous rate increases.

In all, it is expected that there will be considerable improvement in the loss ratio of the various companies. In addition, because of the larger volume of business handled, the expense ratio should also show some decline. Taking these various factors into consideration, underwriting operations of fire insurance companies on a statutory basis should be back on a profitable basis for the first time since 1944.

For purposes of comparison and in order that some idea can be obtained of the results to be expected, a tabulation of the breakdown of the 1947 earnings has been included for some of the leading companies. The figures on underwriting have been adjusted for the increase in the unearned premium reserve. Also shown are the 1948 price range, the bid price a year ago on Dec. 31, 1947, and the current bid price.

	1947 Earnings			1948	Price	
	Net Underwtg.	Invest. Income	Total Net Oper.	Price Range High Low	Dec. 27, 1948	Dec. 31, 1947
Aetna Insurance	—$0.83	$2.93	$2.13	$49½-$41	$49	$47½
Agricultural Insur.	—10.00	5.44	—4.52	67 - 51	59	58½
American Insurance	— 0.34	1.03	0.67	18⅛- 14⅞	17¾	15⅛
Boston Insurance	0.43	3.54	3.97	72 - 52	64¾	64
Continental Insur.	2.17	3.61	5.50	64¼- 48½	62¼	55
Fidelity-Phenix	1.91	4.18	5.86	69⅞- 53½	65¼	57
Fire Association	0.94	4.63	5.42	61 - 44½	58	44½
Firemen's (Newark)	0.83	1.42	2.25	15⅜- 11¼	15⅜	12⅛
Glens Falls	2.22	2.25	4.44	48¼- 40¼	48¼	41½
Great American	0.75	2.13	2.89	32¾- 26	31½	26⅛
Hanover Fire	— 0.68	2.23	1.54	32 - 23¾	32	23¾
Hartford Fire	7.14	5.40	11.87	122 -100	120	105
Home Insurance	1.84	1.97	3.48	30 - 23	30	23
Ins. Co. of No. Amer.	1.25	6.21	7.71	108 - 92	105	95½
National Fire	— 5.93	3.79	—2.14	49½- 41	48¾	41½
New Hampshire	— 1.16	2.89	1.72	45 - 40	42¼	42
North River	0.13	1.42	1.52	25½- 21	25	22½
Phoenix Insurance	1.54	4.61	6.03	90 - 73½	85	77½
Prov.-Washington	— 0.09	1.80	1.71	35¼- 30½	33	31¼
St. Paul Fire & Mar.	5.59	3.80	9.07	81 - 65½	75	68
Security Insurance	— 1.55	2.52	1.39	31 - 23	30½	23
Springfield Fire & M.	0.35	2.20	2.55	46¾- 39½	44¼	41¾
U. S. Fire	0.78	3.27	3.98	60 - 45½	60	46

From the above tabulation it can be seen that even after the adjustment of the equity in the unearned premium reserve several of the companies showed underwriting losses. Before such adjustment all of the companies with one or two exceptions reported deficits. It is in this end of the business that the greatest improvement should be shown.

Nevertheless, there should also be substantial gains reported from investments. While the general stock market will end the year little changed from 1947, portfolio values of most companies should be higher because of the larger volume of premium available for investment. Also, investment income depending upon the character of the individual portfolio will be larger. Where a substantial amount of common stocks are held, income should benefit from the increased dividends paid by a number of companies during the past year. Where fixed income securities are held, the trend towards higher interest rates should have been reflected in greater returns. In all, it is believed that 1948 will be one of the more profitable years for insurance companies.

As a matter of interest, the prices of the above listed stocks have been included as of Dec. 31, 1947 and Dec. 27, 1948. In every case the current prices are higher than a year ago. Although some show only minor changes, others have made substantial gains and are now near the highs of the past several years. Considering the fact that the general stock market is now near the same level it was a year ago and in 1946, the performance of the insurance group is considered very favorable.

Estimates 1948 National Income at Peak

Commerce Department places last quarter's rate at $227.3 billion annually, or $5.6 billion over 1947. Says profits in first three months of 1948 exceed annual rate of $31 billion.

The Department of Commerce on Dec. 20 released its estimate of the national income, together with a computation of corporation profits. According to the estimates, national income rose to record annual rate of $227.3 billion in the third quarter of 1948, an increase of $5.6 billion above the preceding quarter and up $12 billion from the first three months of the year. The Department's Office of Business Economics estimated that national income for 1948 will be around $224 billion, the highest on record. Gross national product for 1948, measuring the market value of all goods and services, is estimated at $253 billion.

Figuring corporate profits on a seasonally-adjusted basis and before taxes, the estimates show an annual rate of $31.4 billion earned in the first quarter of 1948, $33.4 billion in the second, and $35.6 billion in the third quarter of 1948. However, corporate income should be lower and the pattern of quarterly increases altered "materially" when inventory valuation adjustment is taken into account, the Commerce Department warned.

Public Utility Securities

Size and Seasoning Are Important Factors in Investment Status of Utility Equities

A number of electric operating company stocks have made their debut during 1948, including the following:

	Yield About
Northern States Power (Minn.)	7.8%
Central Illinois Public Service	8.6
Interstate Power	8.6
Kansas Gas & Electric	7.0
Kentucky Utilities	8.1
Louisville G. & E. (Ky.)	6.7
Minnesota Power & Light	9.2
Oklahoma G. & E.	7.7
Wisconsin P. & L.	8.6
Wisconsin Electric Power	6.7
Madison Gas & Electric	8.0
Public Service Electric & Gas	8.0
Average yield	7.9%

With yields on highest-grade seasoned utility equities currently averaging 6% or less, the market obviously is unwilling to accord newcomers to the list a yield basis much better than 8%. At the moment size apparently has little effect on this result, for Northern States Power of Minnesota and Public Service Electric & Gas, both very large companies, are selling on high yield bases. In due time, however, the advantages of size should become apparent, and the larger companies may be expected to make more rapid progress toward "market seasoning."

Analyzing a large number of utility stocks, the effects of size are quite apparent in the yields and price-earnings ratios, as follows:

	Aver. Yield	*Aver. PE Ratio*
Companies with revenues over $50,000,000	6.4%	12.3
Companies with revs. of $10-$50,000,000	7.2	9.8
Companies with revs. under $10,000,000	7.8	9.0
General average	7.2	10.1

There are exceptions to every rule, however, and size is not always the major factor affecting stock yields. Consolidated Edison, for example, with revenues of $364,000,000, is by far the largest electric utility, yet the stock is selling to yield about 7.3%, probably due to the high operating ratio and somewhat erratic earnings. The number two company, Commonwealth Edison, with revenues of $233,000,000, sells on a 5.9% basis; recent earnings have been lower. Pacific Gas & Electric, which ranks third with revenues just under $200,000,000, yields 6½%, possibly due to the large amount of stock issued in the past two years. The fourth company, Public Service Electric & Gas, being a newcomer, yields 8%. Some smaller leaders such as Cleveland Electric Illuminating, Southern California Edison and Philadelphia Electric have lower yields.

While size and seasoning are important factors in the market status of utilities, there are a number of other factors such as the following:

- Percentage of dividend pay-out.
- Possibility of an increase in the dividend rate due to low pay-out or increasing earnings.
- Anticipated up-trend in earnings due to recent or pending rate increase, installation of important new generators, or other special factors.
- Favorable location with respect to regulation.
- Rate of return on estimated rate-base.
- Average residential rate, and annual KWH usage.
- Capital structure.
- Plant write-offs, amortization, etc.
- Possible equity financing in near future (through rights, etc.).
- Necessity to buy substantial power due to droughts, or to manufacture expensive gas because of inability of pipelines to transport sufficient natural gas.
- Substantial revenues from transit operations (capitalized on very high yield basis).
- Low fuel costs due to natural gas as boiler fuel, or low coal costs due to local strip mines.
- Proportion of revenues taken down to balance for net income.
- Growth record and prospects, and nature of territory.
- Long record of stable earnings and dividends.
- Special factors such as sale of properties, disasters, dividend omissions, etc.

It is impossible to rate these factors in any particular order of importance, but the utility analyst must be prepared to consider them and try to weight the results. This can best be done by constant observance of their effects on the yields and PE ratios of other utility stocks. When utility stocks are offered to the general public —a rather infrequent occurrence now when so much stock financing is done through rights—the so-called "comparison sheet" usually affords a good statistical picture, though it cannot list all the factors given above.

* * *

Correction—In last week's article on Kentucky Utilities (page 41) the number of shares should be revised to read 1,655,000 instead of 1,065,000.

Report December Decline in Industrial Activity

Robert C. Swanton, Chairman of Business Survey Committee of National Association of Purchasing Agents, says slowing down was greater than anticipated, but opinions on immediate future trends are mixed.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, Division of Olin Industries, Inc., New Haven, Conn., indicated that the forecast by industrial purchasing executives that industrial activity would continue to decline in December, is now confirmed, with an even greater slowing up than was anticipated. December reports, for the first time since the war, record more production declines than increases, and by 3 to 1. Back-order books reflect conditions by a marked falling off, with 50% reporting reductions, while 40% maintain the same position of a month earlier, and 10% show increases. The reports would indicate that declines are more pronounced than would be caused by normal seasonal influences.

Robert C. Swanton

According to the survey, purchasing agents' appraisals of immediate future trends are mixed, but seem to fall about equally into three general groups of opinion, each representing views of both large and small buying organizations.

(1) The present softness is seasonal, overemphasized by peak production and supply satisfying demand in many lines; that adjustments now being made will create a new balance in a short time and that business will pick up after the first of the year; then be good for several months, though somewhat lower than 1948.

(2) That the trend is definitely down and will continue to recede until it reaches a competitive level —not a bust, but a gradual adjustment to lower levels of prices and production.

(3) The short-range, hesitant attitude will continue until Congress meets and the Truman program is known and analyzed. The proposals on taxes, labor laws, and government spending will have considerable influence on plans, programs and, in general, business confidence.

Regardless of the differences in these opinions, purchasing agents are unanimous in the conclusion that the situation calls for the utmost caution in commitment and inventory policies.

Commodity Prices

The trend is from a balanced position to softening. Competition is stronger, sales pressure greater. The switch from sellers' to buyers' markets is evident in several industries. It is significant that, while ferrous and nonferrous metals are strong and may continue so for some time, "outside markets" in steel, copper and lead at premium prices are drying up. Conversion deals in these metals are declining. Cast iron and steel scrap are lower. Growing price resistance at the retail level is reported.

Inventories

Purchased industrial inventories took a sharp drop in December. The largest number this year, 43%, report lower inventories this month. Those reporting increases most often attribute the cause to production cutbacks and lower employment. Industry winds up the year in a conservative inventory position. The policy is to continue it.

Buying Policy

The close buying policy reported last month—98% in the "90-day and under" category—continues, but with some further restriction because more are on a "hand-to-mouth to 60-day coverage." Extended commitments frequently are being canceled. Deliveries on overbought current needs are being deferred. Holding future industrial purchases to planned production schedules is the order of the day.

Specific Commodity Changes

By number of items, there are more products down than up this month. Pricewise, the markets are softening and materials are more quickly available. "Outside market" premium price offerings of metals are finding little acceptance. Careful screening of E.C.A. commitments for critical materials may relieve the present pressure on markets from government stock-piling and domestic demands.

Up were: Brass products, electrotypes, ferrosilicon, hand tools, lead pigments, mercury, nitrogen, oxygen, porcelain, rope, shellac, titanium oxide.

Reported down: Alcohol, canvas gloves, China wood oil, coal, paper containers, cornstarch, foodstuffs, fuel oil, furs, gasoline, leather, lumber, vegetable oils, paper, radios, rubber, scrap steel, silver, soap, some textiles.

Hard to get: Lead, copper, zinc, steel, aluminum, ammonia, chromic acid, steel drums, line equipment, nails, nickel, steel office equipment, phenol, pipe, tin.

Easing supply: Fatty acids, alcohol, cement (some areas), better grades of coal, containers (except steel), cotton, food, fuel oil, glycerine, steel scrap, better grades of lumber, paper.

Employment

Employment is definitely off and more than seasonally. 34% report layoffs and shorter hours. Unskilled labor is reported much easier to obtain. In some areas, skilled workers are seeking employment. Fewer strikes are reported.

Canada

Canadian general business appears to be holding better than in the United States. Production has increased but back orders are somewhat down. Price trend is lower. Inventories unchanged. Employment down about the same as in the United States. Buying policy is under 90 days.

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION INC.

BALTIMORE SECURITY TRADERS ASSOCIATION

The following officers were elected by the Baltimore Security Traders Association to take effect Jan. 1, 1949:

President—E. Elwood McClure, Stein Bros. & Boyce.
Vice-President—William J. Herr, Alex. Brown & Sons.
Secretary—Joseph G. Strohmer, Mackubin, Legg & Co.
Treasurer—William C. Roberts, Jr., C. T. Williams & Co., Inc.
Board Members—Charles Gross, Harry M. Sheely & Co.; Allison M. Berry, Robert Garrett & Sons; H. Mitchell Bruck, Baumgartner, Downing & Co.; J. Wilmer Butler, Baker, Watts & Co.; E. Guy Gray, Mercantile Trust Co.; Howard E. Rein, Equitable Trust Co.

DALLAS BOND CLUB

The Dallas Bond Club announces its newly-elected slate of officers who take office Jan. 1, 1949:

President—John L. Canavan, Rauscher, Pierce & Co.
Vice-President—Robert K. (Rib) Foster, Blyth & Co., Inc.
Secretary—Herbert M. Jones, Dallas Union Trust Co.
Treasurer—Jas. Walker Davis, E. F. Hutton & Co.
Directors (in addition to the officers)—James F. Jacques, First Southwest Company, the retiring President; Edgar W. Franklin, Dittmar & Co.; Landon A. Freear, Wm. N. Edwards & Co. (Ft. Worth).

TRI-CITY PARTIES

The Tri-City parties of the Chicago Bond Traders Club, Twin City Security Traders Association, and Security Traders Club of St. Louis, will be held Jan. 25 through the 28.

The Chicago party will be held Jan. 25 at the Bal Tabarin Inn of the Sherman Hotel, to be followed by parties in Minneapolis, Jan. 26 and in St. Louis Jan. 28.

Bogardus Joins J. P. Morgan & Co.

J. Hurley Bogardus, for many years with Barr Bros. & Co., Inc., will join the staff of the Municipal Bond Department of J. P. Morgan & Co. Incorporated, 23 Wall Street, New York City, at the beginning of the year.

With Bell & Farrell

(Special to THE FINANCIAL CHRONICLE)

EAU CLAIRE, WIS.—Wilbur V. Malkson has become associated with Bell & Farrell, Inc., 119 Monona Avenue, Madison, Wis. He was formerly with Holley, Dayton & Gernon and Loewi & Co.

W. G. Baker, Jr., Dead

William G. Baker, Jr., partner of Baker, Watts & Co., Baltimore, died at his home at the age of 75 after a long illness. Mr. Baker was President of the Investment Bankers Association of America 1918-1919.

With Morrow & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Cloyd A. Engle has been added to the staff of Morrow & Co., Hanna Building, members of the Cleveland Stock Exchange.

Earl M. Scanlan Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Roderick L. O'Hara, Jr., has been added to the staff of Earl M. Scanlan & Co., Colorado National Bank Building.

Heath & Co. Adds

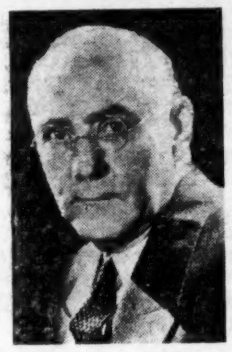
(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL.—James G. Fisher has become connected with Heath & Co., Tower Building.

Denies General Motors Profits Are Excessive

M. E. Coyle, Executive Vice-President of General Motors, tells Congressional Committee postwar profits have failed to keep pace with increased volume of business and have risen less than wage and salary payments.

Appearing before the Subcommittee on Profits of the Joint Congressional Committee on the Economic Report in Washington on Dec. 20, M. E. Coyle, Executive Vice-President of General Motors, strongly contended that the postwar profits of his company were not excessive, but instead have failed to keep pace with increased volume of business and have, in fact, increased less than wage and salary payments.



M. E. Coyle

Mr. Coyle pointed out that the latest list prices of General Motors automobiles (including announced 1949 models) have increased 75% over 1941 on the average as compared with an average increase of 89% for the rest of the industry. At the same time, he said, increases in the prices of some raw materials used in the manufacture of automobiles have amounted to more than 100%.

Stockholders, the statement said, have received only 55% of earnings since the end of the war (even though $223 million of new capital was secured from outside sources) as compared with 85% in the period immediately prior to the war.

"With a dollar volume of business nearly three times that of the 1936-1941 period, and with a like increase in wage and salary payments, our dollar profits currently are less than 2½ times their 1936-1941 level," Mr. Coyle said. "Our margin of profit—the return, including income from investments on each dollar of sales —was 11½ cents in the 1936-1941 period. For the 12 months ended Sept. 30, 1948, this return averaged 8¾ cents. This is 2¾ cents or one-fourth less than in the earlier period which included a year of severely depressed business."

In pointing out that since 1941 General Motors car prices on the average have increased 75%, he called attention to the fact that wage rates increased about 77% over the same period.

"The increase in the prices of GM cars," Mr. Coyle said, "has been little more than the increase in the cost of living, as measured by the BLS consumer price index, which has amounted to 72% since January, 1941.

"On the other hand, prices of such commodity groups as farm products, food and textiles—which play an especially important role in determining the overall cost of living—have increased far more than automobile prices. An interesting sidelight is that in January, 1941, it took nearly 2,000 pounds of round steak at 38 cents per pound to equal the price of a Chevrolet. Today it takes only 1,400 pounds of round steak at 93 cents per pound to equal the price of a Chevrolet. Many other cost-of-living items have gone up more than car prices."

In discussing the claim in some quarters that the automobile industry is pricing itself out of the market, Mr. Coyle said that more people can afford to buy new cars now than before the war in spite of the rise in new car prices and living costs.

"This is due," he said, "to the fact that the number of families has increased by over 10% and the average disposable income per family by 1948 had increased about 85% over prewar, which was greater than the increase in the cost-of-living index or the prices of low-price cars. This improvement in family income was mainly the result of increased farm income and increased employment at higher wages. Employment was about 18% above 1941."

He added that in addition the income distribution has changed and family units at the middle and at the lower end of the income distribution are now receiving a larger share of the total income than before the war. He pointed out that the incomes of some segments of the population have increased much more than the average.

"For example," he said, "the incomes of independent businessmen and farmers are considerably greater than before the war. In 1939, when farm prices were low, it took cash receipts from the sale of eight beef steers to buy a Chevrolet. Today, the same number of steers would bring the price of two Chevrolets.

"After consideration of the foregoing, it is reasonable to estimate that the number of people who are able to purchase new cars has increased as much as one-third over prewar."

Mr. Coyle emphasized that General Motors has to market its products at competitive prices. He added that it also has to pay market prices for materials and the same wages as other companies in the industry and has been profitable because of efficiency in operations and the outstanding customer appeal of its products.

In comparing present automobile prices with those prewar, Mr. Coyle told the committee that "while in 1928 it took an average factory worker nearly 1,200 hours to earn the price of a Chevrolet, in 1941 it took only a little more than 1,000 hours. Today, it takes less than 1,000 hours."

"It is common knowledge that since the war list prices of all but a few makes of cars have been lower than the customer has been willing to pay," Mr. Coyle said. "This has been and is especially true of General Motors cars. This has been shown by our own surveys of so-called 'new-used' car prices and was recently corroborated by one conducted by the "Wall Street Journal." (In 1946 and 1947, premiums paid for 'new-used' cars were much larger.) These surveys show that General Motors cars command among the highest premiums. They indicate what many people have been willing to pay for a General Motors car."

In discussing the effects of inflation on the business of General Motors, Mr. Coyle said in his statement:

"Any consideration of postwar profits must start with the fact that inflation has greatly increased the cost of doing business. In other words, the cost of living for business has gone up too.

"Reflecting inflation, dollar volume of sales has increased at a greater rate than physical volume. Total sales in 1948 are at an annual rate of $4.5 billion as compared with an average of about $1.6 billion in 1936-1941. Employment and payrolls show large increases. Currently employed in the United States and abroad are 380,000 men and women as against 243,000 in 1936-1941. Our average monthly payrolls have nearly tripled—$104,000,000 in 1948 as compared with $37,000,000 in 1936-1941.

"In the year 1948 General Motors stockholders received dividends totaling $4.50 per share of common stock. This compares with average yearly dividend payments in the 1936-1941 period of $3.46 per share. Thus, dividends in 1948 on a per share basis increased 30% above 1936-1941 as against a 56% increase in employment, a 180% increase in payrolls and a 180% increase in dollar sales.

"Measuring dividends in another way, 1948 dollars are worth only about 60% of 1936-1941 dollars in terms of purchasing power. This means that the 1948 dividend of $4.50 per share would buy only what $2.65 bought in 1936-1941. This is what the stockholder looks at when he considers his 'take-home pay'."

Six Partners Admitted By Paine, Webber Co.

Paine, Webber, Jackson & Curtis, members of New York Stock Exchange and other principal exchanges, announce the admission of Carroll B. Cary, Robert Gilmor, Raymond W. Miottel, Guenther M. Philipp, John M. Valleau and Douglas M. Warner as general partners of the firm, as of Jan. 1, 1949. Messrs. Cary and Miottel will continue to be in charge of two of the Detroit offices.

John M. Valleau

Raymond W. Miottel

Mr. Cary, a World War I veteran, joined the firm as a registered representative in 1928 and became managers of its Fisher Building office in Detroit in February, 1941. Mr. Gilmor has been a member of the New York Stock Exchange since 1934. Following extensive securities experience, he joined the navy during the war and rose to lieutenant commander. Since 1946 he has been affiliated with DeCoppet & Doremus as an associate broker.

Mr. Miottel joined the firm in 1912 as board marker, was promoted to office manager in 1920 and became manager of the Penobscot Building office in Detroit in February, 1942. Mr. Philipp joined the firm in 1932 after extensive brokerage experience and has been active in the Chicago office since that time.

Mr. Valleau joined the firm's New York office in 1920, became assistant office manager in 1937 and became office manager in 1942. Mr. Warner has been in the investment business in Minneapolis for 25 years, the last 21 years with Paine, Webber, Jackson & Curtis.

To Be Woolfolk & Shober

NEW ORLEANS, LA.—Effective Jan. 1, the firm name of Woolfolk, Huggins & Shober, members of the New Orleans Stock Exchange, will be changed to Woolfolk & Shober.

James E. Bennett Dead

James E. Bennett, member of the New York Stock Exchange, and senior partner of James E. Bennett & Co., Chicago, died on Dec. 21.

Now Brooke & Co.

PHILADELPHIA, PA. — The firm name of Brooke, Stokes & Co., N. E. corner 15th and Locust Streets, is being changed to Brooks & Co., effective Jan. 1. There is no change in partnership.

Securities Salesman's Corner

By JOHN DUTTON

Let's Look Upward in 1949

If someone, all wise and experienced in the ways of life and men, could map out a course of action for us in the year to come that would insure success and happiness for us—do you think we would follow those instructions? I wonder. For most of us, the years pass on; and if we are honest about it we must admit that we miss most of our opportunities to make them better. It is so easy to alibi—to take the easier road—to blame conditions over which we say we have no control—and habit becomes stronger than the will.

But there is someone who knows what we should do. We know him well. He used to call to us with a voice that was sharp and clear. But today we hardly hear him. In fact, now we strive to evade him but somehow he still hangs around. It is a wonder, too, that he still faintly and feebly tries to gain our attention after all the years we have ignored his entreaties and pleadings. When we were young our parents used to tell us his name was "conscience." Now we know him better. In our candid moments, around this time of year, when we look at ourselves and take an inventory, we summon up sufficient courage to look him squarely in the eye. He is the FELLOW WE ALWAYS EXPECTED TO BE—BUT DIDN'T. He is the fellow we tell ourselves that we really are, only we've been too busy (and too lazy) to do anything about it. The fellow who knows EXACTLY what we should do to make 1949 the best year of our lives is YOU AND I.

HAPPY NEW YEAR EVERYBODY!

SEC Reports Higher Individual Savings

Estimates greater proportion of income saved during third quarter of 1948 than in previous year. Says consumer debt is still increasing.

Individuals' liquid saving was estimated at $3.1 billion in the third quarter of 1948, according to the quarterly analysis of saving by individuals in the United States just made public by the Securities and Exchange Commission. This was $2.5 billion more than liquid saving in the second quarter, reflecting, in part, the usual seasonal increase in income of farmers. In addition to saving in liquid form there was a considerable amount of purchases of homes and durable consumer goods as well as new physical investment by unincorporated business. Adjusting for seasonal influences, it appears that the proportion of income saved during the third quarter was higher than in 1947 and considerably above prewar levels.

Currency and bank deposits held by individuals increased $1.8 billion in the third quarter of 1948. Individuals' equity in insurance and pension reserves increased by $1.6 billion, about evenly divided between government and private insurance. Other increases were in individuals' investment in securities, $900 million, and in individuals' equity in savings and loan associations, $200 million. Partly offsetting these increases in liquid assets, mortgage indebtedness of individuals increased $900 million and other consumer indebtedness $500 million.

The increase of $1.8 billion in currency and bank deposits in the third quarter of 1948 was almost all in the form of checking accounts and reflected in large part the seasonal cash receipts from farm marketings. Currency holdings of individuals increased about $100 million. For the first time since 1942 there was no increase in time and savings deposits.

During the third quarter of 1948 there was an increase in individuals' holdings of U. S. Government securities amounting to about $500 million, with holdings of U. S. savings bonds increasing $700 million and holdings of other U. S. Government securities decreasing $200 million. The comparatively large increase in holdings of U. S. savings bonds reflects sales during the mid-year bond drive. About $500 million of the increased holdings of saving bonds was in the larger series F and G bonds, while $200 million was in series E bonds. Bank loans to individuals on U. S. Government securities were reduced by about $200 million during the quarter.

Holdings of state and local government securities by individuals increased $200 million during the third quarter and individuals' investment in corporate and other securities increased about the same amount, reflecting purchases of new stock issues of that amount. There was no net change in individuals' investment in corporate bonds. Net new issues of such bonds, after retirements, amounted to about $1.1 billion and were absorbed by institutional investors, mainly life insurance companies.

Mortgage debt on non-farm dwellings of one-to-four families increased $900 million during the third quarter, about the same as in the second quarter. Other consumer indebtedness increased about $500 million, about the same as the increase in the second quarter.

Wall St. Riders Celebrate

Members and friends of the Wall Street Riding Club celebrated the holiday season on Dec. 29 with a supper and dance at Mayer's Parkway Restaurant following a Music Ride at the club's ride headquarters, Split Rock Riding Academy, Pelham Manor.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market looks as though it will finish the year without too many casualties, although there were times when fear and uncertainty were so rampant that it was very questionable, to say the least, whether the money managers would continue to hold support prices and keep the market orderly. . . . Liquidation of government securities by both bank and non-bank investors were the highlight of the year, but in spite of this the credit restrictive measures of the monetary authorities attained some degree of success. . . . Reserves of member banks were increased and, despite offsetting sales of Treasury obligations, there was a tightening of the money markets. . . .

The reelection of President Truman brought about a change in the sentiment and tone of the government market because it was believed by many that "pegged" prices of Treasuries would be maintained for the foreseeable future, as Administration financial authorities had indicated. . . . Selling pressure abated after the election and quotations of governments gradually improved, so that many issues will end the year higher than they were at the start of it. . . .

HISTORY DIDN'T REPEAT

The government bond market went through the holiday season very nicely, without the "Christmas present" that was handed it by the monetary authorities last Christmas Eve, when they pulled the "plug" on prices and sent quotations plummeting down overnight, more than two points. . . . The last few days of 1947 were "dark days" indeed because the markets were thoroughly disorganized by the sudden and unexpected action of the powers that be, in sharply lowering support levels of Treasury obligations. . . . The lowering of the floor for prices of government securities the day before Christmas last year, set in motion a wave of liquidation that has continued with only minor interruptions. . . . The fear that was created by the drastic decline in prices of Treasury obligations on Christmas Eve of 1947 has not been entirely dissipated, although there are indications of less concern over present support levels holding, particularly since the fall election. . . .

Accordingly, the government securities markets are finishing the year on a much better note than in 1947, and there are signs that the trend of government security prices is being reversed. . . . If the inflation spiral has been broken and there are indications to that effect, then the cautious reserved attitude of many operators in the money markets will be giving way to more optimistic ones, which should result in better prices for Treasury obligations. . . . This does not point to sharply higher quotations for government securities, because the monetary authorities will see to it that the market is orderly and price appreciation is kept within limits. . . . What these limits will be is a matter for the money managers to decide because they have the securities to push into the market to prevent quotations from getting out of hand. . . .

THE MARKET IN 1948

Although the year 1948 was a very eventful one in the money markets, and there were great fears over price supports and dire predictions made as to where quotations of Treasury securities were going, it seems as though the year as a whole could be called "much ado about nothing," when it came to price deterioration in the government bond market. . . . The longer-term obligations held support prices even under the most adverse circumstances and ended the 12 months period on the plus side. . . . In some instances the advance was a point or more. . . . The bank issues made a better showing than the restricted obligations, but even the latter securities finished above "pegged" levels, which is worth noting, because these bonds were under the heaviest selling pressure. . . .

The partially-exempt securities made the best showing and the more distant maturities were in considerable demand, with the last four issues ending up the period nearer to the highs than the lows of the year. . . . These bonds did not enjoy the benefits of support by the monetary authorities. . . . The prospects of higher taxes were responsible to a considerable degree for the favorable price action of these securities. . . . There was no lessening in the demand for the partially-exempts near the year end despite the feeling that an increase in surtaxes would take some of the attractiveness away from these bonds. . . . However, on a comparative basis with the taxable obligations, the partially-exempt Treasuries still give the more favorable tax-free return. . . .

The bill and certificate rates both advanced during 1948 and the better yield available in the shortest government obligations made them especially desirable to the larger commercial banks. . . . The intermediate maturities were under pressure from time to time, when the whole list was being given a going over, but they too ended up at levels that made it profitable for holders to have retained their positions in these securities. . . .

All in all, it seems as though those owners of Treasuries that worried and fretted through 1948, without making changes in their positions, did not do too badly for themselves.

Rex Jacobs Joins Paine Webber Co.

CHICAGO, ILL. — Rex N. Jacobs, associated for the past six years with the Chicago office of Blyth & Co., Inc., has joined the Chicago office of Paine, Webber, Jackson & Curtis, 209 South La Salle Street. He has been director and treasurer of Nichols Terry & Dickinson, director and treasurer of Knight Dickinson & Co. and was formerly in the manufacturing business.

Abraham & Co. to Admit Three New Partners

Abraham & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit George H. Heyman, Jr., and Aaron Schwalberg to general partnership and Miriam Abraham to limited partnership on Jan. 1. Mr. Heyman has been with the firm in the arbitrage department.

On Dec. 31, Robert B. Hollander, member of the Exchange, and Henry B. Gersten will retire from the firm.

Some Observations

"The haunting fear of another depression must be removed. So long as it overhangs, no group can be expected to surrender its immediate prospects of gain in favor of a future that is too hazy and threatening to be relied upon.

* * *

"What was once an occasional major battle has (as a result of a decade of evolving labor policy) become a running skirmish which now and then develops an emphatic issue and a spirited contest. All of the old issues, except the right to organize and the 40-hour week, remain and furnish the cause of disputes or crises in industrial relations.

"To these has been added a long list of minor controversies about seniority, supervision, vacations, retirement plans, waiting time and the interpretation of formal contracts."—The President's Council of Economic Advisers.

Without taking issue particularly with the Council on these points, at least three observations appear in order—all of which bear far less (if at all) upon the Council than upon the New Deal managers of the past ten years:

(1) "The haunting fear of another depression" is not likely to be removed by constant talk about "booms" and "busts."

(2) We have always had depressions from time to time, and there is not the slightest evidence that any one in official life—or anywhere else for that matter—knows any sure remedy for them. Prudent management and willing labor are as good preventives as exist.

(3) Our evolving labor policy has a poor record.

Takes Issue With Snyder on Bond Price Pegging

Edwin J. Schlesinger writes Treasury Secretary public loses more from inflated prices due to holding government bonds at low interest rates than is saved to Treasury in interest cost.

Edwin J. Schlesinger, Investment Counsel of New York City, has furnished the following copy of a letter he wrote to Secretary of the Treasury John W. Snyder on Dec. 20:

John W. Snyder

Edwin J. Schlesinger

Dec. 20, 1948

Hon. John W. Snyder,
Treasury Department,
Washington, D. C.

Dear Sir:

The "Commercial and Financial Chronicle" of Thursday, Dec. 16, 1948 carried your address before the National Credit Conference of the American Bankers Association, Chicago, Ill. There are several parts of your address to which I would like to refer and to offer some comments.

You state:

"Our economy is at present in a basically sound condition, and shows encouraging signs of stability in the vicinity of the present high levels."

In my opinion, our economy is basically unsound and I fail to see any signs of stability. How our economy can be considered sound when so highly inflated is hard to understand. It would seem that our economy can only be healthy again when much of the present inflation has been pumped out.

You further say:

"Another important factor for consideration is that the budgetary cost of servicing the public debt would be increased by any significant decline in bond prices. The interest cost is already $5.3 billion a year. A further rise in the budget charge for interest payments would be of nationwide importance, and it would affect every taxpayer. A rise in the average interest rate of the public debt by as little as ½ of 1% would cost the American taxpayers approximately $1,250,000,000 a year."

Had the interest of our bonds been at a higher level, say 3%, investors, other than commercial banks, would doubtless have bought such huge quantities, and done so with enthusiasm, that the present inflationary situation would have been far less marked. The government has stressed, and done so repeatedly for some years, the savings effected by present interest rates on the debt, when it must have realized that for the amount of interest saved the people of the United States had to pay out many times that amount in the shape of inflated prices.

And finally you say:

"The Treasury was able to finance the last war at an average interest rate of less than one-half the interest rate of World War I. If this had not been done, the present interest charge would have been more than $10 billion a year instead of $5 billion."

This is answered, largely, by the comments following the previous statement by you. If the increase in the cost of living were represented by the difference between $5 billion and $10 billion the American people would have gotten off very cheaply. Instead a fearfully heavy burden has been placed on their shoulders by inflation.

On Sept. 18, 1937, I wrote Secretary Morgenthau the following to which it may be appropriate to now refer, as what was said then holds good even more so now:

"For several years I have been carefully following the Treasury's policy in respect to cheap money, and have had my original views constantly confirmed. I refer to the fact that in my opinion interest rates as far back as January, 1935, should have been permitted to seek their normal levels.

"I do not seem to be able to get away from the feeling that the pegging of interest will have no different results than the pegging of commodity prices. The example of copper, in particular, comes constantly to my mind. Reference is made to the price of copper which after reaching 24¾ cents c.i.f. was pegged at 18 cents on the way down. When the peg was finally forced out copper broke 5 cents; and I doubt very much whether this would have happened if the price had been permitted to reach its true level without any artificial hindrances.

"I am mindful of the fact that the Treasury through its policy of cheap money is doubtless saving considerable sums in the shape of interest on its obligations. However, I am wondering whether the rank and file of the people in the United States are not losing many times what the Treasury is saving. I refer to the current interest rates on savings bank deposits, the reduction of dividends on life insurance policies, and the untold millions of bonds that have been called, all three of which I believe directly attributable to the Treasury's policy. The possible danger of current interest rates to the portfolios of banks I am purposely not going into."

The government's persistency in keeping money rates artificially cheap is nearly incredible. Not only has it created havoc for so large a part of the country's population but for every dollar the government spends, whether for defense or some other purpose, it means getting just that much less.

Very truly yours,
EDWIN J. SCHLESINGER

Robt. S. Burns Heads New Blair Dept.

Robert S. Burns is joining Blair & Co., Inc., 44 Wall Street, New York City, to manage the firm's bank and insurance company stock department. Mr. Burns has been a bank and insurance stock analyst for more than 20 years, having previously been with Blyth & Co., Inc., for 11 years and before that with Clinton Gilbert & Co. for the same number of years.

Robert S. Burns

Albert Hughes to NYC; Parker to Manage Lord Abbett Chic. Office

CHICAGO, ILL. — Albert E. Hughes, resident Vice-President of Lord, Abbett & Co., 120 South La Salle Street, is being transferred to New York City. John G. Parker will become manager of the firm's Chicago office.

Harris, Upham Co. Adds

BEVERLY HILLS, CALIF.— Dean M. Kennedy has become associated with Harris, Upham & Co., 114 El Camino Drive. He was formerly with Blyth & Co., Inc.

Fairless Holds Steel Capacity Is Adequate

President of U. S. Steel Corporation tells Subcommittee on Profits of Joint Congressional Committee on the Economic Report, nation is now producing steel products at highest rate in any previous year and has capacity to further enlarge output. Says new plant construction is still going on.

In a statement presented on Dec. 21 at Washington, D. C., to the Subcommittee on Profits of the Joint Congressional Committee on the Economic Report, Benjamin F. Fairless, President of the United States Steel Corporation, sought to clear up the confusion regarding the nation's steel capacity to produce enough steel for present and estimated future demands. According to Mr. Fairless, "Much has been written concerning the steel industry-capacity to produce in relation to current demand and estimated future requirements. The terms "capacity" and "production" have been used as if they were interchangeable—as if they were in fact the same. But no statement could be more fallacious."

Benjamin F. Fairless

Continuing his statement, Mr. Fairless said:

"Capacity is the theoretical amount which can be produced if raw materials of proper quality and required quantities are made available to run the equipment. Production is the amount of product available for shipment as a result of the operation of the equipment. Production, not capacity, is the means of meeting the needs of the steel consumer. Demands have been made for increased capacity while too little has been said about increased production.

"I question if many people understand the size of the job which has been accomplished by the steel industry. There has been so much discussion concerning theoretical capacity, current demand and future requirements, that confusion continues to exist and to me it seems essential that we examine the matter from a practical standpoint in order that we may see where we are and where we are headed.

"During 1948, the steel industry will produce and ship to consumers, 65 000,000 tons of finished products. This is more finished steel products than in any previous year, peacetime or wartime, in our nation's history.

"In my judgment, the industry is capable of producing in 1949, a much greater tonnage than I would have considered possible, had I been asked for such an estimate in 1946. My guess is that in 1949, the industry can produce 68,000,000 tons of finished steel products. Please understand I am not speaking of theoretical capacity. What I am saying is that the steel industry, if not interfered with by labor difficulties, will be capable of producing and shipping during 1949, approximately 5,000,000 tons of finished steel products more than it shipped during the year 1947, and nearly 7,500,000 tons more than the average shipments during the four war years of 1942-1945.

"I have a table here which tells the story. You will note that World War II was fought and won with an annual average production of 60,600,000 tons of finished steel. Because of strikes and reconversion problems, the year 1946 was a year of relatively low production—48,800,000 tons. In 1947 the industry had a good operating year, and production rose to 63,000,000 tons, almost equalling the best war year.

"Now, in the post-war period, large sums of money have been spent to increase and improve the availability of raw material and steel facilities. Some of our critics have indicated that they think too little is going into basic steel-making capacity because of certain ideas currently held with respect to inadequate capacity. This question of capacity is a serious one and one to which we in United States Steel have devoted and continue to devote a great deal of attention—now, more than ever before. But when the several members of the steel industry went to work in their own individual way to cure the shortage of steel, a job was done, and is being done, which I, for one, am pleased to see. Some members increased ingot capacity; some worked primarily on raw materials; some devoted their time and money to more adequate finishing facilities, and so on. All worked under the pressure of the greatest pent-up demand for steel in the nation's history, where each pound of steel used to construct steel facilities meant a pound less for the needs of some customer.

"Understand, of course, that new construction is still going on. For example, we will add, and by that, I mean actually get into operation, during 1949, about 600,000 tons of additional ingot capacity. We expect to spend over $250,000,000 for plant and equipment in 1949.

"The best test of what the industry has done and can do, in my opinion, is to be judged by the products shipped. If we in United States Steel choose to spend many millions of dollars to get better coal so that our coke quality improves and our pig iron supply is increased, we may not change our rated ingot capacity one ton, but the resulting increased production will permit us to ship more tons to our customers. The shipments in 1948 prove that post-war expenditures have meant more steel for our customers.

"As I have said on other occasions, the steel industry will continue to improve and increase its production. Inability to meet simultaneously all the extraordinary demands, does not mean that the industry is not progressive nor that it will not increase its capacity, nor is there any proof that the demand will continue indefinitely at the present pace. Already, the upward swing of the pendulum, except for that portion of the demand which is under government controls, appears to be less rapid. When a normal time will appear is, of course, uncertain, and when it appears, how much over the pre-war level that normal will be, remains equally uncertain. Whatever develops, I am satisfied the steel industry will continue to accept full responsibility for steel production in the United States.

Steel Ingot Capacity, Compared with Ingot and Finished Steel Product Production

(000 omitted)

Year	Ingot Capacity	Ingot Production	Tons of Finished Products
1941	85,158	82,839	60,942
1942	88,886	86,031	60,591
1943	90 589	88,836	62,210
1944	93,854	89,641	63,250
1945	95,505	79,701	56,602
1946	91,890	66,602	48,775
1947	91,241	84,894	63.057
1948	94,233	88,000 (est.)	65,000 (est.)

	Tons
1942-1945	
Average annual ingot production	86,052,000
Average annual finished product production	60,663,000
1947	
Ingot production	84,894 000
Finished product production	63,057,000
1948	
Ingot production estimated	88,000,000
Finished product production estimated	65,000,000
1949	
Ingot production probable	92,000,000
Finished product production probable	68,000,000

Titus, Miller Being Formed in Michigan

ANN ARBOR, MICH.—Titus, Miller & Co. is being formed as of Jan. 1 with offices in the Penobscot Building, Detroit, and in the State Savings Bank Building, Ann Arbor. Partners will be Dean W. Titus, Don W. Miller, Frank L. Cavan, John W. Gillen, Blanche M. Heil and Robert N. Sawyer. Mr. Miller will be in charge of the Detroit office and Mr. Titus in charge at Ann Arbor. The new firm, which will hold membership on the Detroit Stock Exchange, will conduct a general securities business specializing in real estate and unlisted stocks and bonds.

Mr. Miller was formerly with McDonald-Moore & Co. Mr. Titus and Mr. Cavan were partners in Dean W Titus & Co. of Ann Arbor, with which Mr. Gillen was also associated.

Newburger, Loeb Open New Dept. Under Miles

Newburger, Loeb & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announce the formation of an Institutional Bond Department under the direction of George H. Miles. Mr. Miles has been a well-known figure in Wall Street for many years and has a wide acquaintance in financial and institutional circles. In the past he has been an active partner in several prominent brokerage firms, including J. H. Holmes & Co. and Murphy Brothers and Miles.

In recent years, Mr. Miles has devoted his time to institutional and syndicate activities and will continue in that capacity in his new connection.

Harry Rice & W. Grubbs With Loewi & Co.

MINNEAPOLIS, MINN.—Harry C. Rice and Walter S. Grubbs, formerly officers of the dissolved firm of Frank & Belden, Inc., have become associated with Loewi & Co., Milwaukee, as representatives. Mr. Rice will maintain offices in the Rand Tower, Minneapolis, and Mr. Grubbs will have his headquarters in the First National Bank Building, St. Paul.

Charles Harrison, Jr., Dead

Charles C. Harrison, Jr., partner and founder of Harrison & Co., Philadelphia, died Dec. 22 at the age of 71.

Warns Excess Profits Tax Would Force Industry to Cease Plant Expansion Programs

Robert G. Dunlop, President of Sun Oil Company, tells Joint Congressional Committee mere talk of such levy is causing hesitation regarding plans for new productive facilities.

An excess profits tax imposed upon industry at this time would have the same effect as a law directly prohibiting further industrial expansion, Robert G. Dunlop, President of Sun Oil Company, warned on Dec. 15 in testimony presented to the Joint Congressional Economic Committee.

Mere talk of a so-called excess profits tax is already causing grave doubts about the wisdom of moving ahead with projected plant expansion programs, Mr. Dunlop contended. He declared that the oil industry has traditionally depended upon profits to generate funds for expansion. This "internal creation of capital" is especially needed today, he said, "because current rates of taxation and credit restrictions place limitations on the availability of outside financing."

Robert G. Dunlop

Profits, Mr. Dunlop explained, enabled the oil industry to spend $2 billion a year during the last two years to build new plants and facilities.

"Are the proponents of the proposed excess profits tax willing to take the responsibility of halting this expansion?" he asked. "Are they ready to tell the American people that we have all the plant and equipment we need to insure our national security and our standard of living?"

Mr. Dunlop blamed monetary inflation for widespread misunderstanding of corporate profits, "the true size of which no longer is accurately revealed by customary accounting procedures."

"Monetary inflation has clouded the accountant's mirror, distorting the true image of profits," he declared.

This inflation, he charged, stems directly from an over-expanded money supply resulting from loose monetary policies and the Federal Government's continued deficit financing.

Mr. Dunlop emphasized that the oil industry's vast postwar expansion was made possible largely by the willingness of stockholders to forego dividends to help finance new construction.

As an example of this trend he pointed out that Sun Oil Company "ploughed back into the business" 61% of its earnings in 1940, 70% in 1941, 82% in 1946 and 1947, and 88% in the first six months of the current year.

Oil industry stockholders who forego today the dividend returns which rightfully belong to them are motivated "by the hope of future profits through increased volume and the desire to safeguard their original investment through maintaining the dynamic structure of the enterprise," he added.

Mr. Dunlop warned against restrictive control and regulation of oil and other competitive industries.

"Let petroleum remain free and unfettered, subject to the laws of economics and the corrective forces of the market place, and the oil industry will continue to serve the best interests of the American people, helping to raise their standard of living and to insure their national security," he said.

The Lost Art of Budget Making

M. S. Rukeyser declares our political thinking has been corrupted by spending propaganda, while concealing cost of the Santa Claus welfare state.

The material well-being of the American people hinges on rediscovery by the newly elected 81st Congress of the lost art of budget making.

This view was expressed on Dec. 15 by Merryle Stanley Rukeyser, Economic Commentator for International News Service, in an address under the auspices of the Brooklyn Institute of Arts and Sciences at the Academy of Music.

Merryle S. Rukeyser

"Political thinking," Mr. Rukeyser declared, has been corrupted by the propaganda of publicizing benefits of government spending, while concealing the cost. The myth that a welfare State is playing Santa Claus is based on little more than sleight of hand designed to rob Peter to pay Paul. Even the 'economic security' provided in governmental handouts has been watered down by the inflationary process, which resists a ceiling on total Federal spending.

"In two decades, the American Way of Life has been altered by doubling the ratio of total government spending to total citizen income, increasing the ratio from one sixth to one third. Double entry bookkeeping reveals the cost of government extravagance in the narrowing of the area of free choice and discretion by individuals in the selection of goods and services. When production and distribution are conducted by private enterprise, the customer is the boss, and has discretion to accept or reject any and all proferred goods and services. On the other hand, when economic activity is under government, the citizen is compelled to pay for everything that the bureaucratic regime offers. He can reject nothing.

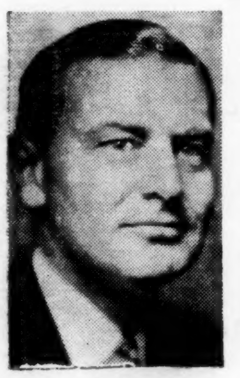
"That is the essential difference between the price system, which exalts individual freedom, and the tax system, which rests on force.

"One reason why shortages persist despite 'full employment,' is that the channeling of the fruits of production through government, with substantial leaks from the national economy to overseas beneficiaries of grants and gifts is that one-third of the nation's manhours are devoted to building pyramids, that is, the projects of government, rather than items and services demanded by individual customers. Thus, the other two-thirds at work must not only provide food, shelter, clothing and comfort goods for themselves and their dependents, but also for the one-third of the total, who, being assigned directly and indirectly to governmental spending, may be more or less parasitic."

Scores Labor's Attack on Profits

Walter Hoving, President of Commerce and Industry Association of New York, Inc., tells Congressional Joint Committee profits are the chief source of funds to maintain and create jobs.

Predicting that any rise in corporate income taxes would bring on a serious depression, Walter Hoving, President of the Commerce and Industry Association of New York, Inc., in a statement filed on Dec. 23 with Senator Ralph E. Flanders, head of the Senate-House special committee studying business revenues, denounced the "propaganda technique" and the "subtle attacks" on company profits being utilized by advocates of increased assessments.



Walter Hoving

Labor leaders especially, Mr. Hoving declared, referring to testimony given in Washington recently, should defend corporate profits rather than attack them, because such profits are presently the chief source of funds to maintain employment and create new jobs.

"Great skill has been used by the higher tax advocates in laying their public relations groundwork," he asserted. "They began by making subtle attacks on company profits, using the modern propaganda technique of repetitious harping on alleged high profits. For the last six months these attacks have been gaining momentum steadily with the result that the public, hearing very little of the other side, has begun to accept this propaganda as truth. Thus, the stage has been set for the cry that corporate income taxes should be raised.

"The fact is that corporate profits are not large," Mr. Hoving continued. "When current replacement costs of fixtures, machinery and equipment are considered the obvious conclusion is that corporate profits, if anything, are too small for the good of the national economy.

"The public should be made familiar with the fact that the average investment for plant and equipment necessary to put a man or woman to work in an American manufacturing plant is $8,389. The range is from $3,759 per wage earner in textiles to $21,205 in the telephone system, and $27,375 in chemicals. In addition, it costs several thousand dollars more in capital funds for inventory and working capital to keep them at work.

"Some of these funds always have come from profits that have been plowed back into business. More and more of them must come from that source in the future because of the difficulty in obtaining equity capital at the present time. An increase in corporate taxes, either by way of excess profit or straight income taxes, would further dry up the equity markets because such action would be a serious threat to the continuity of dividends."

Under a 38% corporate income tax, Mr. Hoving pointed out, a corporation must earn $3.24 before it can reinvest one dollar in its plant and pay one dollar in dividends. Under a 50% tax, corporations would have to earn $4 in order to reinvest one and pay out one in dividends. These dividend dollars, he emphasized, not only are taxed as part of the income of the person who receives them, but they buy only about half as much as the 1928 dollar.

"It is clear," he asserted, "that dividends should be twice as much as twenty years ago if the stockholder is to receive the same real income from his investment. As an example, the United States Steel Corporation in 1928 paid $7 in dividends, while in 1948 it is paying only $5, the equivalent of about $2.50 twenty years ago. It does not take much figuring to make it evident that dividends of corporations will be seriously jeopardized if two dollars have to be earned to pay out one in dividends.

"Increased corporation taxes during a hot war are one thing. An inflationary economy under war conditions makes many unsound practices temporarily successful. But during a deflationary economy or one in which the price level is stable it is altogether impossible to maintain high corporate taxes for any length of time. As a matter of fact, the present tax of 38% is a major factor in the drying up of equity capital sources, which is the equivalent of pernicious anemia in business."

Denouncing the "loose talk about the ability of business to carry higher taxes," Mr. Hoving asserted that "any rise in corporate income taxes would bring on a serious depression."

Kuhn Loeb to Admit Thors and Walker

Kuhn, Loeb & Co., 52 William Street, New York City, members of the New York Stock Exchange, announce that they will admit to partnership on Jan. 1, 1949, Mr. J. Emerson Thors and Mr. Robert E. Walker, both of whom have been associated with the firm for many years and have held its power of attorney.

J. Emerson Thors Robert E. Walker

Mr. Thors has been Manager of the Syndicate Department since 1941 and prior to that had worked in various departments of the firm, having joined it in 1917. This has been his only business association.

Mr. Walker graduated from Yale in 1929 and was associated with Blair & Co., Inc., and the Reconstruction Finance Corporation before joining Kuhn, Loeb & Co. in 1935, since which time he has been active in its Buying Department. His affiliation with the firm was interrupted from 1942 to 1946 by service in the Navy, in which he rose to rank of Lieutenant-Commander.

Leo Goldwater to Be Hettleman Co. Partner

Leo J. Goldwater, member of the New York Stock Exchange, will become a partner in the New York Stock Exchange firm of Hettleman & Co., 1 Wall Street, New York City, on Jan. 1. Mr. Goldwater, who has been acting as an individual floor broker in the past, was a member of Goldwater & Frankl.

Robert B. Hollander, member of the Exchange, and Henry B. Gersten will retire from partnership in the firm.

Quincey to Admit Wallace

Chas. E. Quincey & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Robert J. Wallace to partnership on Jan. 7.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At a meeting of the board of directors of **The National City Bank of New York** on Dec. 28, Leo N. Shaw, formerly Vice-President and Manager Overseas Division, was appointed Senior Vice-President and Manager Overseas Division, and James S. Rockefeller, formerly a Vice-President, was appointed Senior Vice-President. With these appointments the bank now has three Senior Vice-Presidents, including DeWitt A. Forward, who was appointed in 1945.

Leo N. Shaw James S. Rockefeller

Mr. Shaw, a native of Auburn, N. Y., and a graduate of Amherst College, joined The National City Bank as a member of the Foreign Service Training Class and was assigned in 1917 to the branch then operated in Moscow. Between 1918 and 1920, he was U. S. Vice-Consul in Russia. After resigning from the consular service he returned to the bank and was assigned to the Foreign Exchange Department at head office. He was appointed Assistant Cashier in 1926, Assistant Vice-President in 1928 and Vice-President in 1931. In 1945, he became Deputy Manager and in 1946 Manager of the Overseas Division. Mr. Rockefeller, son of the late William G. Rockefeller, is a native of New York City and a graduate of Yale University. He came to National City in 1930, was appointed Assistant Cashier in April, 1931, and Assistant Vice-President in June, 1933. In January, 1940, he was made a Vice-President, serving in the Metropolitan District. He entered Army service in 1942 and attained the rank of Lieutenant-Colonel, returning to the bank in December, 1945.

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The board of directors of **Bankers Trust Company of New York** announced on Dec. 22 the election of Alex H. Ardrey as a director of the company and appointed him a member of its Executive Committee. Mr. Ardrey has been connected with the banking department of the company since coming with the bank as a Vice-President in 1930 and has served as head of the department for the last three years. At the board meeting two weeks ago, the directors elected Mr. Ardrey to the newly created office of Executive Vice-President.

* * *

The Chase National Bank of New York has announced the promotion of James J. GaNun from Second Vice-President to Vice-President of the bank. He is in charge of the bank's Produce Exchange Branch on lower Broadway. Harry S. Craver has been appointed an Assistant Cashier in the Public Utilities Department and Richard J. Donovan an Assistant Cashier in the Commercial Banking Department.

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Following a meeting of the board of directors of the **Bank of the Manhattan Company of New York** on Dec. 23, Lawrence C. Marshall, President, announced the following promotions: Patrick N. Calhoun and Herman J. Wacker, former Assistant Treasurers, were appointed Assistant Vice-Presidents; John E. Carroll and Henry W. Pfister, former Assistant Trust Officers, were appointed Trust Officers; John W. Grothier and Thomas A. Jack were appointed Assistant Trust Officers; D. Murray Cameron, Paul J. Dierks, George O. Dow, Melvin Golder, George A. Johnston, Reynold L. Jordan, Thomas H. Ohlweiler, Edward L. Wetjen and Ferd A. Westhoff were appointed Assistant Treasurers. Richard H. Garlock was appointed Assistant Economist.

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Stanley Bracken, President of the Western Electric Company, was on Dec. 23 elected a director of the **Chemical Bank & Trust Company of New York**, according to an announcement by N. Baxter Jackson, Chairman of the bank. Mr. Bracken is also President of the Weco Corp. and is a director of Belle Telephone Laboratories, Inc.; Nassau Smelting & Refining Co.; Northern Electric Co., Ltd. (Canada); Teletype Corp.; Westrex Corp. and National Industrial Conference Board.

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Henry Morgenthau, Jr., former Secretary of the Treasury, was on Dec. 28 elected Chairman of the board of directors of the **Modern Industrial Bank of New York**, Jacob Leichtman, President, announced. At the same time Robert P. Patterson, former Secretary of War and President of the Association of the Bar of New York, was elected to the board. This, it is stated, is believed to be the first occasion in recent history that two former Cabinet members have become associated with a New York bank. Since his retirement as Secretary of the Treasury, Mr. Morgenthau has been active in the United Jewish Appeal, serving as General Chairman in 1947 and 1948. The United Jewish Appeal is now completing its 1948 drive for $250,000,000. In October of this year he made an extensive tour of Israel. Mr. Morgenthau is also President of the Franklin D. Roosevelt Foundation.

H. Morgenthau, Jr.

Organized 25 years ago, the Modern Industrial Bank has its main office at 116 Fifth Avenue, New York City, and maintains six other branches in Manhattan, Brooklyn and the Bronx. In making the announcement, Mr. Leichtman pointed out that Mr. Morgenthau is the "father of savings bonds" and that he has contributed more than any other living American to "popularizing the bonds that have resulted in public saving on the largest scale in the history of the United States."

In a statement accompanying the announcement, Mr. Morgenthau, in part, said:

"The opportunity for community service through this institution is a real challenge to me. I welcome it as a channel for expression of those ideals of a people's partnership that were the guideposts of my program in the Treasury Department."

The Modern Industrial Bank has 50,000 depositors and does a

commercial banking business including a personal loan department.

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Robert J. Kiernan, Vice-President and Senior Loaning Officer

Robert J. Kiernan

of **Sterling National Bank & Trust Company of New York,** has been elected a director of the bank.

* * *

Daniel B. Grant, Vice-President of the **Guaranty Trust Company of New York,** who served on General Eisenhower's staff during the invasion of North Africa and was later SHAEF chief finance officer in Belgium and Luxembourg, died on Dec. 27 at his residence in New York City after an illness of several months. He had spent the greater part of his business career in the bank's service abroad, principally in London. Mr. Grant, who at his death was 55 years of age, had been associated with the Guaranty Trust Company since January, 1926, and previously had been for seven years with the bank's former securities affiliate, Guaranty Company of New York. From 1924 to 1941 his headquarters were in London where he was appointed a Vice-President in 1930, with supervision over the bank's offices abroad. He returned to the main office in New York in September, 1941, as a Vice-President in the Foreign Department. During the First World War, Mr. Grant served overseas as a Lieutenant in the U. S. Navy and for more than a year during the early part of World War II he was a leader in the work of the American Red Cross in England. He entered the United States Army in May, 1942, as a Major, advancing to the rank of Colonel. Because of his knowledge of English and Continental ports and railroads, his first assignment was as fiscal advisor to the Chief of Transportation in the United Kingdom. Requested by General Eisenhower to join his staff in November, 1942, Colonel Grant participated in the North African invasion and landed on D-Day with the II Corps. Returning to London the following year, he was assigned to Supreme Headquarters, Allied Expeditionary Forces, and went to the Continent as head of the Financial, Banking and Currency branch of the SHAEF mission to Belgium and Luxembourg, where he continued until the close of the war.

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Winthrop Trowbridge has been appointed Assistant Mortgage Officer of the **Dime Savings Bank of Brooklyn, N. Y.,** it is announced by George C. Johnson, President, according to the Brooklyn "Eagle" of Dec. 26, from which it is learned that Mr. Trowbridge has been associated with the bank since March, 1936.

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E. Phillips Walker who has been an Assistant Vice-President of the **National Shawmut Bank, of Boston, Mass.,** has been elected a Vice-President, it is learned from the Boston "Herald" of Dec. 22, which states that prior to coming to the Shawmut Bank he was with the American Trust Co. The "Herald" also states that Mr. Walker has served as Branch Manager, Assistant Cashier, Assistant Vice-President and field representative with Shawmut for 25 years.

Subject to approval by the Comptroller of the Currency and shareholders at their annual meeting on Jan. 11, directors of **Lincoln National Bank of Newark, N. J.,** have declared a 20% stock dividend to be distributed to shareholders in the ratio of one share for each five shares held as of the effective date of the dividend. Concurrent with the approval of this dividend, an additional $200,000 will be transferred from undivided profits to surplus account, thus bringing the bank's capital and surplus each to $1,200,000. During the past 10 years, the bank's capital has been increased from $600,000 to $1,000,000 and surplus from $325,000 to $1,000,000, all from earnings with the exception of $200,000 added to capital through the sale of a like amount of common stock in 1944, concurrent with the declaration at that time of a stock dividend in like amount. It is contemplated that the present annual dividend of $2 per share will be continued on the 48,000 shares to become outstanding after issuance of the stock dividend. Shareholders will be asked also to approve an amendment to the Articles of Association of the bank, advancing the annual meeting date from the second to the third Tuesday of January. The bank was organized in 1924 with an authorized capital of $300,000 and surplus of $150,000, since which time it has acquired by merger, the Colonial Trust Company and the Vailsburg Trust Company, both in Newark. C. K. Withers is President of the Lincoln National.

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Plans for a merger of the **United States Savings Bank** and the **Dime Savings Institution,** both of **Newark, N. J.,** were approved on Dec. 22 at special meetings of the directors of both banks and the State Banking Board has been petitioned for similar approval. Benjamin Fairbanks is President of the U. S. Savings Bank and Alvah S. Amerman is President of the Dime Savings Bank. The merger would be effected under the name of the former. In the Newark "Evening News" of Dec. 23 it was stated: "Dime Savings has been a Newark institution since 1864. United States Savings was founded in 1871. The combined bank would have $34,000,000 in deposits, with 42,000 accounts. Mr. Fairbanks said all personnel will be retained. Thomas A. Loughlin of U. S. would be Executive Vice-President and Mr. Amerman and Joseph T. Harrison of Dime Vice-Presidents. Harry Kilpatrick would be Treasurer, Harry W. Howerter, Jr., Secretary, and William T. Heyeck Controller.

"Mr. Fairbanks said the board of managers would be consolidated to take in 26 members, the existing 12 members of the Dime board and the 14 directors of U. S. The two-way merger comes as a surprise, in wake of the persistent reports of the last six months that a three-way merger was being considered, including the Franklin Savings Institution, whose office is between the other two."

* * *

The **Union National Bank of Zelienople, Pa.,** (common capital $65,000), wasp laced in voluntary liquidation on Dec. 15, having been absorbed by the Mellon National Bank & Trust Company of Pittsburgh, it has been made known by the Comptroller of the Currency.

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Appointment of Sidney B. Congdon, President of the **National City Bank of Cleveland,** as member from the **Fourth (Cleveland) Federal Reserve District** of the Federal Advisory Council, was announced on Dec. 21 by George C. Brainard, Chairman of the board of directors of the Federal Reserve Bank of Cleveland. Mr. Congdon succeeds John H. McCoy, President of the City National Bank and Trust Company of Columbus, Ohio, and member of Federal Advisory Council for the last four years. His appointment is for the calendar year 1949. He was employed in the office of the Comptroller of the Currency in Washington from 1911 to 1915 and later served as assistant to the Director of Finance and Purchases of the U. S. Rwy. Administration. He became a National Bank Examiner in 1920 and three years later was elected Vice-President of the Bank of Pittsburgh N. A. In 1932, Mr. Congdon became chief of the Bank Loan Division of the Reconstruction Finance Corporation and a year later was appointed manager of the Cleveland Loan Agency of the RFC. He was chosen conservator of The Guardian Trust Company in March, 1933, and the following July was elected President of The National City Bank of Cleveland. In 1946, he was President of the Association of Reserve City Bankers.

* * *

Directors of the **Ohio Citizens Trust Company of Toledo** voted on Dec. 21 to recommend that stockholders authorize an increase in the bank's capital from $600,000 to $1,000,000 and increase the number of $20 par value shares from 30,000 to 50,000. The foregoing in from the Toledo "Blade" of Dec. 22 which, in part, added:

"Willard I. Webb, Jr., President, said $400,000 would be transferred from the surplus account to capitalization and that if the plan is approved at the stockholders' meeting Jan. 18 an exchange of five shares of new stock for each three shares of old will be made Jan. 21 to holders of record Jan. 19. Following issuance of the new stock, the bank, with total deposits in excess of $40,000,000 will have capital of $1,000,000 and surplus and undivided profits in excess of $1,000,000, Mr. Webb said."

* * *

John R. Rowland, Chairman of the board of the **Mahoning National Bank of Youngstown, Ohio,** died on Dec. 10 at the age of 79 years. In 1890, according to Youngstown advices to the Cleveland "Plain Dealer," Mr. Rowland entered the service of the old First National Bank of Youngstown and when the First and Second National banks merged in 1910, he became Assistant Cashier. Advices in the "Plain Dealer" added:

"In 1917, he went with the Mahoning National Bank as Vice-President. He was made President Jan. 8, 1924. He remained in that capacity 22 years. When he retired, the post of Chairman of the board was created for him."

* * *

The stockholders of the **First National Bank of Chicago** at a special meeting on Dec. 21 authorized an increase in the capital from $60,000,000 to $75,000,000. In the Chicago "Daily Tribune" of Dec. 22 it was noted that the additional $15,000,000 will be drawn from the surplus account which totals $80,000,000, including the recent addition of $5,000,000 transferred from undivided profits. The "Tribune" notes that the new capital shares, amounting to a 25% dividend in stock, will be distributed to shareholders of record at the close of business Dec. 15. Plans to increase the capital through a $15,000,000 stock dividend were referred to in our issue of Dec. 16, page 2513.

* * *

Harry A. Brinkman, Vice-President of the **Harris Trust and Savings Bank, Chicago, Ill.,** retires at the year-end after 42 years in the Harris organization. Mr. Brinkman began his banking career in 1906 with N. W. Harris & Co., which later was incorporated as the Harris Trust and Savings Bank in 1907. He was elected Assistant Cashier in 1912, Cashier in 1927 and Vice-President in 1934. Mr. Brinkman served as President of the Illinois Bankers Association in 1935 and in 1937 was President of the State Banking Division of the American Bankers Association.

On Dec. 14 the capital of the **Lincoln National Bank of Chicago, Ill.,** was increased from $200,000 to $300,000 by the sale of $100,000 of new stock.

* * *

Charles A. Kanter, President of the **Manufacturers National Bank of Detroit,** announced on Dec. 22 that the bank has acquired a site on Wyoming near Fenkell for a future branch office. Construction on the building will start in the early spring of 1949. This is the first branch office of Manufacturers National to be opened in Detroit's corporate limits and will be the sixth banking office in the greater Detroit area.

* * *

A further increase has been made in the capital of the **National Bank of Commerce in Superior, Wis.,** since a recent item in these columns (Dec. 16, page 2515) reporting an earlier increase. In that case it was indicated that the capital had been increased from $275,000 to $282,600, effective Nov. 30, by a stock dividend of $7,600. The Office of the Comptroller of the Currency has since reported that through the sale of $17,400 of new stock the capital was enlarged on Dec. 10 from $282,600 to $300,000.

* * *

Through a stock dividend of $500,000 the capital of the **Fourth National Bank in Wichita, Kan.,** has been increased from $1,500,000 to $2,000,000, effective Dec. 16, according to the Dec. 20 bulletin of the Office of the Comptroller of the Currency.

* * *

Wiley R. Reynolds, Jr., was elected President of the **First National Bank in Palm Beach, Fla.,** at a special meeting of the board of directors on Dec. 16. Mr. Reynolds succeeds his father, the late Wiley R. Reynolds, to the Presidency of the bank. Since his graduation from Yale University in 1940, Mr. Reynolds, Jr., was closely associated with his father in the operation of the bank, with the exception of the war years, during which time he served with the Air Forces. Comer J. Kimball, who has been a director of the bank since 1940, was elevated from Vice-Chairman to Chairman of the board. J. Kenneth Williamson was elected Vice-Chairman of the board. Mr. Williamson has been a member of the board since the bank's organization in 1927. Walter D. Cameron, who recently joined the bank as Vice-President and Trust Officer, was elected to the board of directors.

The death of Wiley R. Reynolds, Sr., was noted in our issue of Dec. 16, page 2513.

* * *

The First National Bank in Merced, Calif., became the Merced office of the **Anglo California National Bank of San Francisco** as at the close of business on Dec. 18, according to a joint announcement by Allard A. Calkins, President of the Anglo Bank, and William J. George, President of the Merced bank. The entire staff of the former First National Bank will remain. Mr. George has become a Vice-President of Anglo Bank and manager of the Merced office. A. J. Grasmoen, W. H. Jensen, H. B. McClelland, Ray Peak and A. H. Rose, officers of the former First National, have become Assistant Managers of Anglo's Merced office. Directors of the former First National Bank will constitute the Anglo Bank's Merced advisory board, which will consist of William J. George as Chairman and F. E. Braucht, W. R. Ford, Arnold J. Grasmoen, W. H. Jensen, J. Emmett McNamara and V. G. Preston. With the addition of the Merced office, Anglo now has 25 offices in 14 northern and central California communities.

* * *

The directors of the **California Trust Company of Los Angeles** at their monthly meeting, Dec. 16, elected Samuel S. Rolph, Vice-President; Virgil D. Sisson, Trust Officer, and W. H. Light, Assistant Secretary, Frank L. King, President, announced. California Trust Company is wholly owned by California Bank, Los Angeles.

Reports Gain in Deposits of Mutual Savs. Banks

William L. Maude, President of National Association of Mutual Savings Banks, says $55 million increase in November is largest since June. Banks are increasing mortgage loans.

Regular deposits of the 532 mutual savings banks of the nation increased $55,000,000 during November to a total of $18,098,000,000, according to a report issued by William L. Maude, President, National Association of Mutual Savings Banks, and President of The Howard Savings Institution, Newark, N. J. The gain was the largest for any month (except June) since the first quarter of 1948 and exceeded by 15% the increase a year ago. The rise over October reflects the fact that amounts deposited rose $20,000,000 or 5% while withdrawals fell $44,000,000 or 11%.

William L. Maude

Although special purpose and club accounts dropped sharply primarily as a result of annual payments to depositors of $167,000,000 in Christmas Club checks, nearly $40,000,000 of this amount was redeposited in regular savings accounts.

At the close of November, regular deposits were 3.5% higher than at the close of November, 1947, while other deposits were up 20%. The number of regular accounts rose 1%, and the number of other accounts 21%. Despite the upturn in November, the increase in regular deposits during the first 11 months of 1948 has been at a rate about three-fifths that of a year ago.

In commenting on the report, Mr. Maude said, "It is heartening to observe the gain in regular deposits in November and the active reopening of Christmas Club accounts for 1949 by those who used this systematic saving plan this year. It indicates that despite the economic pressures which people currently face and the lesser margin of income above expenses from which they can make savings, many individuals recognize the desirability of having a nest egg and adding to it regularly. By so doing, they are building reserves which will enable them to face the future with increased confidence."

During November the savings banks increased their holdings of mortgage loans by $59,000,000 and their investments in corporate and municipal securities by $25,000,000. Both classes show an unbroken record of gain since early 1947 and now stand at a new peak. Holdings of U. S. Governments declined $124,000,000 during November and of cash $43,000,000. During the first 11 months of 1948 the savings banks added $635,000,000 to their mortgage portfolios, as compared with $341,000,000 during the same period of 1947, while they increased their investments in corporate and municipal securities by $425,000,000 as against $287,000,000 last year. Holdings of U. S. Governments were reduced $442,000,000 during the first 11 months of this year whereas for the same period of 1947 such holdings showed an increase of $346,000,000.

Holman Clarifies Concept of Profits

Standard Oil Executive tells Senate Committee it is not the same thing as money in the bank, but represents merely an accounting term. Says profits are essential working part of whole process of production and cannot be taken out or used for benefit of few.

In presenting testimony before a Subcommittee of the Joint Congressional Committee on the Economic Report in Washington on Dec. 15, Eugene Holman, President of the Standard Oil Company of New Jersey prefixed his remarks by attempting to clear up some misconceptions regarding the nature of profits. In this connection, Mr. Holman stated:

Eugene Holman

"Perhaps the principal misconception is that profit represents a sum of money—actual cash—lying idle in a vault and waiting to be dipped into. Of course, such a mental picture is entirely inaccurate. 'Profit' is a term of accounting. To get a clear idea of what this term means, let us look beyond bookkeeping for a moment and examine what goes on in a business enterprise.

"A company sells its products or services and gets paid for them. This is the main source of its receipts. The entire amount of money taken in by the company during a year is its total income for that year.

"But a company not only takes money in; it also pays it out. Under accounting practice, some of the money it spends is deducted from total income—and the balance is labeled "profit." However, not all the money a company pays out is deducted from total income to arrive at the profit figure.

"Wages, taxes, purchases of materials, and similar sums are of course deducted. Also an allowance for wear and tear and obsolescence, based on the original cost of the equipment, is subtracted from total income. But if more than this allowance must be spent to replace the equipment because of higher costs, or if a company increases its capacity to produce goods, the money expended for these purposes is not charged against current income. Even though this money is paid out, it still is included in the profit or net income figure.

"I think it needs to be emphasized, therefore, that profit is not the same thing as money in the bank. A company's reported net income is not the same as the company's cash account. It often happens that a company will pay out more money, not counting dividends, than it takes in during a year and still will report a substantial profit.

"Profits are not something taken out of the stream of economic activity for the benefit of a few. They are an **essential working part** of the whole process of production. They are the means by which our productive facilities expand. As such, they benefit the entire community. They provide jobs for the people who put up new plants and who make new machinery. They provide jobs for the people who work in those plants and at those machines.

"By making possible better tools and more tools per worker, they increase individual productivity, which is the only way that real wages can be increased. By making possible greater output of goods, they benefit the consumer.

"The profit which is reinvested in a business may be compared with the seed-corn which a farmer sets aside for future production. In a very real sense today, profits represent industry's seed-corn. In a growing nation such as the United States, there is constant need for greater quantities of seed-corn.

"As a percentage of either total income or of investment, profits in the oil industry tend to be higher than in many other industries. This is a reflection of the nature of the business. Profits for the oil industry have to be higher than in many other lines of work if the industry is to do its job, especially during periods of increasing requirements."

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made Dec. 20 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $71,660,000 1.60% consolidated debentures dated Jan. 3, 1949, due Oct. 3, 1949. The issue was placed at par. The proceeds, together with $12,900,000 cash in treasury, will be used to retire $84,560,000 debentures maturing Jan. 3. As of the close of business Jan. 3, 1949, the total amount of debentures outstanding will be $467,235,000.

San Fran. Bond Club Elects New Officers

SAN FRANCISCO, CAL.—The San Francisco Bond Club has elected Lester H. Empey, American Trust Company, President for the ensuing year. Other officers named were Harold Schlemmer, Schwabacher & Co., Vice-President; and Horace Davidson, Bailey, Selland & Davidson, Secretary-Treasurer.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer to H. Matthew Nilssen, who will become a partner of J. A. Hogle & Co. of the Stock Exchange membership of George H. Hogle, will be considered by the Exchange as of Jan. 6.

Transfer to Meyer Willett of the Stock Exchange membership of Adrian R. Allan, Jr., will be considered on Jan. 6. Mr. Willett will be an individual floor broker it is understood.

Willem van Marle, general partner in Bendix, Luitweiler & Co., will become a limited partner effective Jan. 1.

Interest of the late Franklin S. Jerome in Breining & Co. ceased Dec. 16; on that date Chester G. Breining, general partner, also became a substituted limited partner.

William L. Day retires from partnership in Drexel & Co. Dec. 31.

Allen B. Tilghman retires from partnership in A. G. Edwards & Sons Dec. 31.

Alvah R. Boynton will withdraw from partnership in F. S. Moseley & Co. Dec. 31.

Louis F. Rothschild and Charles Neuwirth, general partners in L. F. Rothschild & Co., will become limited partners on Jan. 1.

Shean, Earle & Co. will be dissolved Dec. 31.

Frederick R. Horne, general partner, will become both a general and limited partner in Thomson & McKinnon on Jan. 1.

W. Strother Jones, member of the Exchange, and Henry A. Rudkin, limited partner, will withdraw from J. R. Williston & Co. Dec. 31.

Measuring Financial Sentiment in the Stock Market

(Continued from page 2)

it brings out is the motivating cause of investment decisions. And the relative outlook for marginal enterprises is an important aspect of the general outlook itself. In this way, the Index of Confidence is not only an indicator of market action, but an important economic index as well.

Value Stocks and Vision Stocks

Following the above described principles, this writer has constructed two broad statistical samples, each of which represents a cross section of the general market. They are described in detail in **New Tools,** and their action is shown there over extended periods as well as the action of their ratio, i.e., of the Index of Confidence. To find the most closely matching pairs of stocks throughout the entire industrial range was one of the many difficult statistical problems in the construction of these indexes. It was only as a short cut, as a convenient label, that, in **"New Tools,"** this writer has characterized these samples, or indexes, as "high-priced" and "low-priced" stocks. To repeat, the vital point is not the actual price of any of the stocks in either of the indexes, but the wide dual price-quality spread between them and their close homogeneity. The names of "value" and "vision" stocks would better describe their real nature. But we should use even these terms with caution. We shall not attach to the term "value" stocks the meaning that their true value can be accurately computed, but merely that these stocks are purchased predominantly on the basis of their estimated worth and estimated dividend yields. "Vision" stocks, on the contrary, are bought primarily when the business outlook as "envisioned" by the buyers looks promising and they hope to realize capital gains.

Differential Volume Analysis

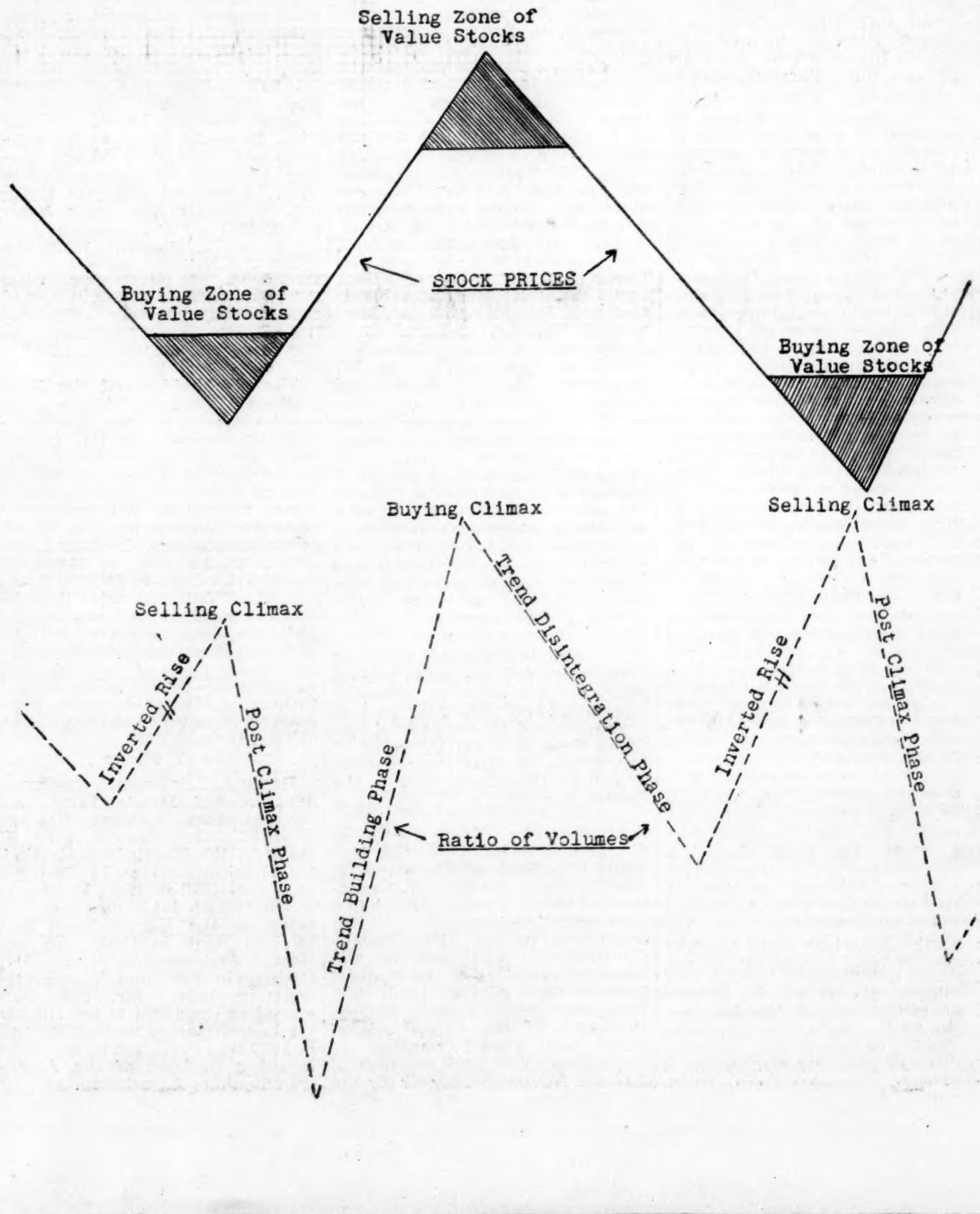
Financial sentiment finds a reflection not only in relative price relations, but in volume relations as well. Therefore, to be complete our indexes must also reveal the relative activity of "value" and "vision" stocks. To be able to do this, they must be so constructed as to arrive at an equalization of the numbers of shares traded in these two groups of stocks when the market itself is in balance. For in this case, when the Ratio of Volumes of the two samples stands at 100%, it represents a natural level. No artificial calibration of this index is then necessary. And any rise of this ratio above, or decline below this sea level line throws light on the internal condition of the market. Differential volume analysis supplements differential price-quality analysis in giving greater assurance to the findings of the latter when it corroborates its significance. And it also aids in locating with a greater measure of precision, and with greater rapidity of conclusion, the formation of actual areas of trend reversals.

Let us a draw a diagram of a typical complete intermediate market cycle **expressed in terms of differential volumes.** On this diagram we shall draw two lines. One will represent the trend of stock prices; the other, changes simultaneously occurring in the structure of the relative volumes of transactions in vision stocks and value stocks. These changes will be shown by an index consisting of a Ratio of Volumes. To obtain it, we shall divide the daily number of shares traded in the vision stocks composing our index by the daily number of transactions in the stocks entering into the composition of our index of value stocks. In other words,

$$\text{Ratio of Volumes} = \frac{\text{Vision Volume}}{\text{Value Volume}}$$

It will be observed that, following the principle of construction of the Index of Confidence, the volume of the vision stocks stands in the numerator of the Ratio, while its denominator consists of the volume of value stocks. This produces the following mechanism in the movements of the Ratio:

(1) **The "Inverted" Rise of the Ratio**—It will be convénient to begin the description with the middle phase of the market's decline towards the bottom of an intermediate downswing from which a new uptrend will occur. While the decline proceeds, the holders of value stocks have the less reason to sell them the more they approach a level of relative undervaluation. Some of the holders have probably been sellers at a higher level. This must have been especially the case for those among them, who at that time, had been holding their stocks for a sufficiently long period to produce long-term profits and in whose opinion the outlook for equities was not encouraging. On the other hand, the potential buyers of value stocks have little incentive for active purchases until the outlook changes or until the



stocks in which they are interested reach bargain counter levels.

But the holders of vision stocks who had acquired them for speculative purposes begin to take action as the decline sets in. They have to revise their original objectives of hoped for capital gains. If they purchased their stocks while the market was still rising, and at a level still under the prices to which they have now declined, they hasten to cash in their still existing, though diminishing, profits. If they purchased them at higher prices, many of them will be induced to cut losses while they are still small. And as the decline develops momentum, it will bring in additional disappointed and scared sellers whose numbers will grow with the acceleration of the decline. In fact, this situation usually produces a self-magnifying process. The speed of the decline and the rate of additional selling interact on each other.

In consequence, throughout this phase of the market cycle, the numerator of the Ratio of Volumes, which shows the volume of the vision stocks, will tend to become increasingly larger. The number of transactions in vision stocks will swell under the impact of emotional selling. On the contrary, since there will be little selling or buying of value stocks, the denominator of the Ratio, which represents them, will remain relatively stable. As a result, during this phase of the decline, the Ratio of Volumes rises, reflecting the increasingly larger number of transactions in vision stocks, as compared to those in value stocks. Thus, **it rises in a declining market.** It reveals a predominance of speculative selling. To distinguish the rises of the Ration occurring in a falling market from its rises which are coincidental with an improving price trend, this writer calls them "**inverted" rises.** On the diagram, the Ratio's inverted rises are marked by two small parallel cross bars.

(2) **Selling Climax** — However, within some future unpredictable segment of time, the cumulative psychological force of fear and its accelerating effect on the speed of the decline of the vision stocks will spend itself. This may happen as the result of one or of a combination of several causes. Perhaps by that time the more timid or the more impressionable souls will have already unloaded their wares; or a gradual exhaustion and evaporation of the psychological contamination of fear may have taken place; or the prices of vision stocks may have already approached a level at which the consideration of the heavy losses to be sustained will exercise a more effective brake on their selling. Whatever the reason, or combination of reasons, at a certain point the process of acceleration of selling of vision stocks will have reached and passed its peak. This selling will begin to ebb. In other words, the numerator of the Ratio of Volumes, after persistently rising, will reach a peak and thereupon begin to fall off.

While the numerator of the Ratio will thus be already declining, or perhaps even before it will have reached the crest of its rise, the denominator will tend to increase. Value stocks will be approaching or entering a zone of undervaluation. Purchases of this type of stocks will become increasingly more numerous and aggressive. The influence of this buying on the Ratio of Volumes will be gradual and almost imperceptible at first. While the selling of vision stocks will be mounting, thereby swelling the numerator of the Ratio, the progressive growth of the denominator will at the beginning merely act as a brake on an otherwise still steeper rise of the Ratio. But as selling of vision stocks subsides and eventually dries up, the effect of the simultaneous increase of the denominator will become more pronounced and telling. And the moment will come when, in turn, it will acquire a greater arithmetical value than the numerator, thereby causing a reversal of the Ratio of Volumes. It will form a peak and then will begin its descent. This reversal, once it has unmistakably taken place, will indicate the emerging of an internal climax in volume relations. It may or may not coincide with an actual selling climax in the market itself. In the absence of an actual selling climax, the appearance of such an internal climax will be particularly valuable, as it will serve to locate the turning point of the decline.

The climax formation of the Ratio of Volume can occur at a relatively high or low level of its own range of fluctuations. The level of its reversal can itself be a significant factor in evaluating the importance of the climax and for the projection of the probable extent and duration of the subsequent rise of the market. The height that it will reach in its "inverted" rise will be a function of the force of the liquidation that has been taking place.

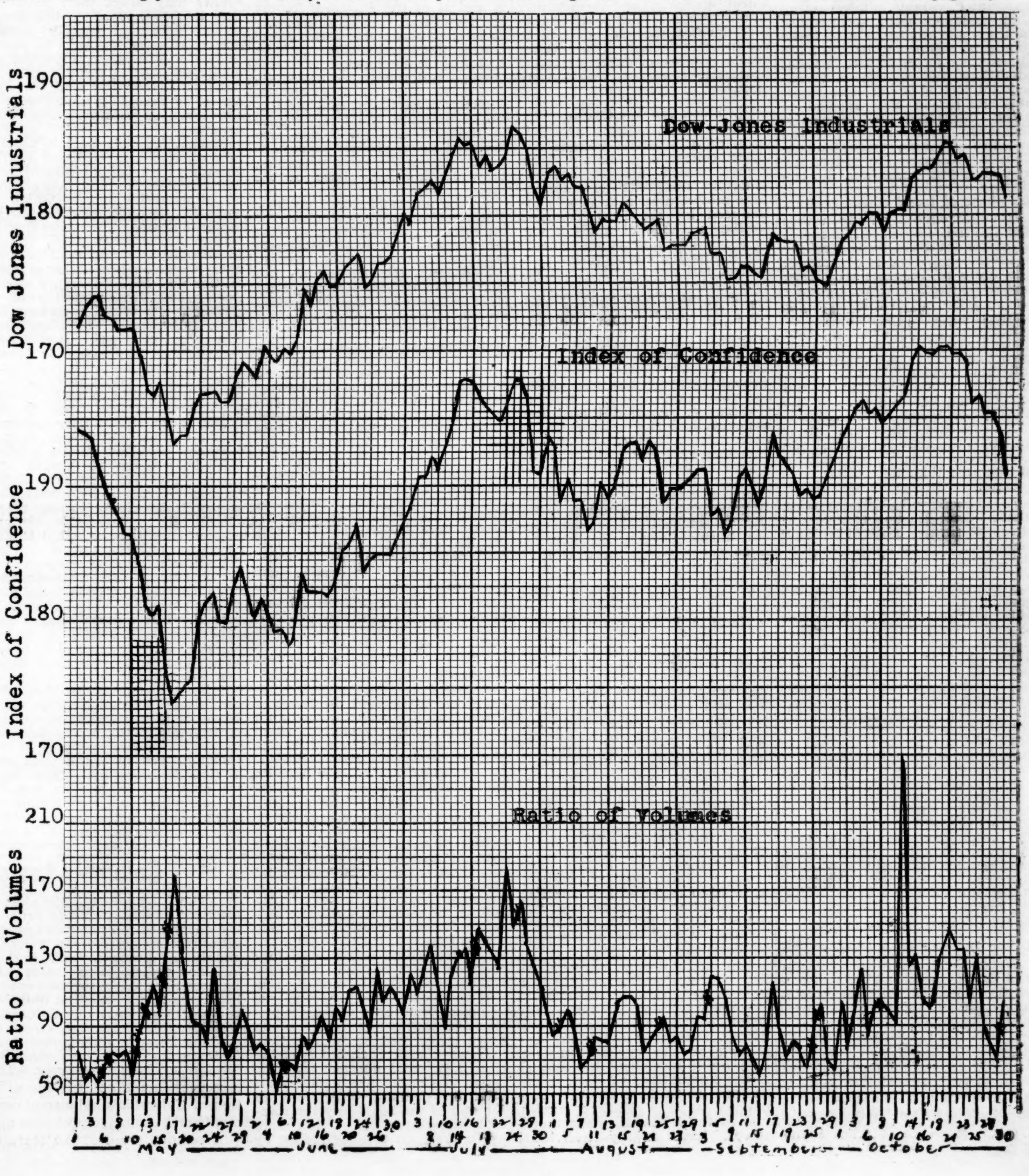
(3) **The Post-Climax Phase**—Once the selling climax will have been reached and passed, the trend of the market and the trend of the Ratio of Volumes will again at first be moving in opposite directions. Stock prices will be rising and the Ratio of Volumes will be falling. This is the typical action for the post-climax phase.

During this phase, the accumulation of value stocks will continue. These stocks will not be lifted overnight out of a zone of relative undervaluation. Therefore, the denominator of the Ratio will remain for a while arithmetically large. On the contrary, the numerator, which measures the volume of vision stocks, will continue to shrink. Whatever short covering will have been done by the more agile speculators, much of it will have been completed during the decline and the early part of the rise. Nor will the new buyers of vision stocks be very numerous during the first stage of the rally. The harsh lesson of the decline and of the resulting losses will still be fresh in their minds. Pessimism is likely to be still the prevalent mood. Vision stocks are bought for their future prospects. They need an atmosphere of growing cheerfulness to attract any significant buying. Even if the numerator, which represents them, merely remains unchanged or simply increases less than the denominator representing the value stocks, the net result will still be a decline in the Ratio of Volumes. The effects of the various possible relative actions of the numerator and the denominator will determine the speed and the depth of the decline of the Ratio. And this will again have a bearing on the projection of the probable extent and duration of the next phase of the stock market cycle, which we may call the trend building phase.

(4) **The Trend Building Phase**—As value stocks gradually depart, in their rise, from the bargain counter shelves, purchases of these stocks will diminish. The denominator of the Ratio, which measures their volume, will show a tendency to shrink. But the spectacle of the rising trend of stock prices will operate its usual magic on the minds and emotions of the buyers of vision stocks, at first slowly and mildly and then more intensely and more rapidly. The future will appear to them less bleak. Its outlines will assume in their mental vision an increasingly more pleasant light until, eventually, it will once more radiate all the colors of the rainbow. The psychological stimulant of a rising market will re-awaken dormant buying appetites. As its numerator gradually swells, the Ratio of Volumes will resume its rising trend. This time, it will move in the same direction as the rising trend of the market. This concurrence is characteristic for the trend-building phase of the rise.

(5) **Buying Climax**—But after a certain lapse of time, which will be different for each individual price cycle, the speculative ardor of the buyers of vision stocks will begin to wane. The causes, and their combinations, may be different in each case, but the result will be the same. The rate of growth of the numerator of the Ratio will first begin to slow down and then its arithmetical

(Continued on page 24)



Measuring Financial Sentiment in the Stock Market

(Continued from page 23)

value will start to contract. It may happen that this will occur at a time and at a market level where the value stocks will again begin to look overvalued to their holders. Especially those among them whose holdings show long-term profits might feel inclined to sell. Or perhaps at that time the economic, social, political or international outlook may be such as to suggest to farsighted investors the desirability of a reduction of their holdings regardless of any tax or value considerations. Whatever its reason, the appearance of selling of value stocks will tend to increase the denominator of the Ratio.

The slowing down of buying of vision stocks or the appearance of selling of value stocks, even if only one of these phenomena should take place, would have a similar effect on the Ratio of Volumes. They would arrest its rise and bring about its reversal. Should they happen concurrently, their effect on the Ratio would be double and, therefore, drastic. The numerator would be decreasing simultaneously with an increase in the denominator. Or if there should be a time lag between the appearance of these two market conditions, the reversal and subsequent decline of the Ratio might be extended in time instead of being increased in intensity. Whatever its sequence and the measure of its numerical expression, it will mark the end of the trend building phase and the beginning of what we might call the phase of trend disintegration.

It will frequently happen that this internal buying climax will be of an invisible nature as far as the market itself is concerned. The Ratio of Volumes will have passed its crest and will be already declining while the uptrend of stock prices will be still in progress. The climax formation of the Ratio of Volumes will then have rendered a particularly valuable service. It will have furnished a timely warning of the forthcoming bending over of the stock price trend itself. Experienced market observers know well that the area of reversal of a rising trend is even more difficult to diagnose than the bottom of a decline.

(6) The Trend Distintegration Phase—Once stocks begin to decline, the psychological climate generated will be the opposite of that created by a rising trend. The lights of optimism will begin to fade. The sight of vanishing profits will exercise on holders of vision stocks a powerful urge to sell. The number of transactions in vision stocks, which was diminishing as a result of lesser financial ability or willingness to buy, will again start to increase as selling comes in. In the meantime, when value stocks, in the course of the decline, leave the zone of their relative overvaluation, fewer investors will sell. The numerator will be gradually increasing, and the denominator decreasing. A point will be reached when the arithmetical value of the former will overtake that of the latter. Once more, the Ratio of Volumes, which was reclining, will reverse its trend and move upwards again. This rise of the Ratio will be an "inverted" rise. It has been already discussed under Section 1 of this analysis.

Other Indexes of Market Action

Needless to say, the diagram and the discussion of the function of the Ratio of Volumes give a schematic and oversimplified picture. The movements of the Ratio will not draw a straight upward or downward line. They will form zig-zags. And these saw-tooths will, in turn, reveal the building up of strength or the appearance of weakness. Nor will such a typical sequence of an intermediate market cycle always be found in this complete form in actual practice. Thus, for instance, some intermediate declines may run to their conclusion without the formation of a typical selling climax. When other indexes point to the probability of the end of an intermediate cycle, the absence of any drastic liquidation of vision stocks may itself provide a significant indication as to the technical condition of the market. As in most fields of observation, analysis and classification of frequently recurring phenomena, a representative and typical case can serve only as a backbone around which actual life will cluster the flesh of its varying forms.

For this reasons, we need to develop controls and checks in the form of additional indexes of market action. We are dealing with highly complex phenomena. Alfred Marshall once remarked that in the field of economics most short statements are false. This is even more to the point in the sphere of market analysis. We must beware of simple mechanical gadgets or hermetically closed "systems" incapable of further development. In addition to the indexes described, this writer uses a number of other statistical processes, some of which were discussed in "New Tools."

Stock Market Cycles

The above discussion and diagram of differential volume analysis concerns primarily those swings which market analysts generally designate as intermediate moves, a term originally introduced by the Dow theorists. Similar methods of analysis can be applied to market movements whose duration and amplitude exceed or fall short of the intermediate cycles.

The gyrations of stock prices, like those of other economic factors, are of uneven magnitudes. They take place against the background of slowly moving long-term secular trends, which cut through several business cycles and may extend over a number of decades. Around their lines, basic cyclical fluctuations of the stock market trace their recurrent movements. They may last from a year to a decade for the completion of a full move from trough to trough, or peak to peak. They are usually consonant with and an integral part of the general business cycle. But long periods occur when there is little relation in the timing of their turning points with those of general business or any of its component economic factors.

These basic cycles are the widest swings of practical interest to investors and market analysts. Their turning points constitute the major reversals of the market. Between these points stretch those long and persistent trends which are habitually called bull and bear markets. No trend, however, proceeds in a given direction in a straight cumulative line. Other, and shorter, intermediate cycles weave their own oscillations into the fabric of the basic cyclical pattern.

But just as the intermediate cycles depart from and then revert to the curves of the basic cyclical trends, they are subject, in turn, to repeated interruptions and deviations in the form of still shorter minor cycles, which are themselves composed of irregular oscillations.

Contrary to some current beliefs, this writer has no faith in a preordained rigidity of cyclical movements. Natural or man-made events can alter their scope and timing, hasten or delay the unfolding of the cyclical process. And he thinks that this applies to the fluctuations of stock prices as much as to those of other economic factors. Market cycles, just as the business cycles themselves, have highly individual characteristics of both amplitude and duration. And this holds true for the brief minor cycles of the stock market as much as for its intermediate and basic swings. Each of them has to be dissected and analyzed in its own right.

Practical Application of Market Analysis

"New Tools for Stock Market Analysis" traces the daily action of the writer's indexes from Jan. 1, 1946 to May, 1947. And on a weekly basis, the past history of the indexes is presented in that study for the preceding decade. In order to bring them a step forward, while using them concurrently for illustration of the tools of analysis described in this paper, we submit a chart for six additional months, beginning with May 1, 1947.

On May 5, the market reached the top of the third minor cycle within the intermediate decline from the February high. The upward phase of this minor cycle had its point of departure at the minor low of April 14. Charts A and B in the Progress Report of "New Tools" have shown the underlying weakness of this rally. During the three sessions of May 2, 3 and 5 the market was still rising. But the Index of Confidence, as may be seen on the Chart, was declining, and the Ratio of Volumes had two declines in these three days; it had also declined rather sharply—from 108 to 56—during the three preceding days of this last phase of the rally.

As the market entered on May 6 upon the downward phase of the minor cycle, the Ratio of Volumes began a series of "inverted" rises. (As on the diagram, such inverted rises are marked on the chart by two small parallel bars.) Each successive daily decline brought a corresponding inverted rise of this ratio, emphasizing the predominance of selling by the holders of vision stocks. And until the market reached its selling climax on May 17, the three daily declines of the ratio, with one exception, occurred during sessions of mildly improving prices, underscoring their internal weakness.

The series of inverted rises carried the Ratio of Volumes from a low of 55 on May 5th to its selling climax high of 184 on May 17. Once the selling climax was reached and passed, the Ratio of Volumes again plunged downward, continuing to drop during the post-climax phase of the new intermediate upswing, in compliance with the diagram. This phase lasted until June 5, when the ratio made a new low of 50.

The fact that the market entered, after June 5, a trend building phase is illustrated by the rapid zig-zag rise of the Ratio of Volumes. From its low of 50 on that date it advanced to 184, which point was reached on July 23. But as the market was establishing its own intermediate high on the following day, making its final 2 point advance on the Dow-Jones industrial average, the Ratio of Volumes broke to 144. It lost 40 points in a single session. With few interruptions, most of which were inverted rises coincident with a receding market, it dropped from 184 to 64 in the course of eleven sessions. Already during the early part of this precipitous fall, it had broken the rising trend line of its June-July advance. Its action indicated clearly that the intermediate rise was completed, that the trend was engaged in a phase of disintegration and that a new intermediate down swing was at its inception.

If we glance once more at the chart, we shall observe that the Index of Confidence furnished its own independent indications of the end of the May-July intermediate upswing.

We shall not tire the reader by a detailed description of the action of the indexes during the rest of the period. The chart itself unfolds their story. But we can mention several highlights.

After August 8, the Index of Confidence began to develop resistance to the decline. In fact, during the following session, August 11, it had a marked lift against more than a full point's decline of the average. Its low of Sept. 8 was on the same level with that of Aug 8, while there was a difference of 4 points between the corresponding lows of the industrial average. By Sept. 26, it had traced a clearly rising trend, while the industrials made a new low on that day. Subsequently, it indicated the October top in a way similar to its performance at the July top.

Conclusion

This writer does not wish to convey the impression that, in his opinion, market analysis is foolproof. Like all other approaches to investment problems, it has its own limitations. It diagnoses relations among forces acting in the market only at the time of the measurements. Sudden decisive events may upset their balance. But this is not often the case. News is seldom utterly unexpected. Usually, before it becomes known to the general public, it infiltrates the market, causing structural changes. And our indexes, by revealing such changes can serve as weather vanes for investors

Market analysis tries to ascertain whether a given trend is still pursuing its unhindered course or whether it is running into an internal condition out of which a trend in the opposite direction is likely to develop. At times it will lead to wrong conclusions. It can speak only in terms of probabilities. Occasionally, minor probabilities will take the upper hand. Even when the probability of a certain event should be as high as 90%, there still remains one chance out of ten that it will not materialize. The future is never certain. But being consistently on the side of major probabilities means being able to operate with a greater assurance of profit.

Nor does this writer believe that all other approaches to investment problems should be discarded in favor of market analysis. The best results will be no doubt obtained by a balanced approach which will use, as it should, all the available knowledge of conditions relevant to the formation of stock prices.

To use a concrete illustration, let us assume that value studies have convinced us that the stocks we are planning to buy are undervalued. But market studies reveal that a declining trend is about to set in or is still in progress. Accordingly, we shall defer our purchases until such time as we have reason to believe that the internal condition of the market once more shows substantial underlying strength and that an important new upswing is in the making. We shall then put our buying decisions into effect. And we shall act in similar fashion in carrying out contemplated sales. Thus, in the light of market conditions as shown in the chart toward the end of July, 1947, this was not a propitious time to buy, but was, on the contrary, an appropriate period to execute selling intentions.

Advanced market analysis thinks in terms of internal conditions, of areas of trend changes, not in those of pin points or "signals." It calls for deliberate carrying out of decisions over a period of time instead of panicky selling or a buying stampede. Its increasing use will eventually serve to flatten out the swings of stock prices whose extreme and violent fluctuations are one of our social ills. Market analysis meets and resists the impact of emotional action. In so doing, it renders a signal public service.

Philip Cortney on Excess Profit Tax

(Continued from page 4)

a backlog of demand from the war need as much to improve their present tools, buildings, etc., as the companies which were fortunate enough to enjoy the backlog of demand. Furthermore, the high profits made by the corporations which enjoy a backlog of demand do not even permit many of these companies to expand their production in order to fill as promptly as possible this backlog of demand. This is the case in the steel industry, the automobile industry, and building. Moreover, the mere fact that the demand in some of these industries is abnormal, because it is only an accumulation of a backlog of demand, creates the problem of how far should a company expand to meet this abnormal demand. For instance, suppose the automobile industry would have charged for their cars as much as the traffic was able to bear since 1945. Assume also that the huge profits which the automobile companies would have made would have permitted the automobile production to rise from five million to eight million cars a year. Is it not a valid question to ask whether it would have made sense to increase the facilities for making automobiles to the extent necessary to meet an abnormal exceptional demand? To me it seems clear that fairness and economic reasons militate in favor of an excess profit tax rather than an increase in the general corporate tax if the government cannot manage without additional revenues, which, by the way, is a doubtful proposition.

To deal with an abnormal situation and permit its restoration to normal without creating new problems, we need special measures. The social and economic system is not unlike the human body. When our body has suffered a shock or a severe malady, the way to recover our health is to treat it gently, and not to put it to compete in a race with Mel Patton.

Very sincerely yours,
PHILIP CORTNEY

New York City
Dec. 28, 1948

Colombia Lowers Exchange Rate

The International Monetary Fund has announced that the Government of Columbia has proposed, and the Fund has concurred in, the change of the par value of the Colombian currency from the previous rate of approximately 1.75 pesos to the U. S. dollar, to approximately 1.95 pesos to the U. S. dollar. The change in par value will be accompanied by certain modifications in the existing multiple currency system of Colombia, which should have the effect of curbing imports and thereby tend to lessen the drain on Colombia's foreign exchange reserves. The measures should assist in the solution of Colombia's balance of payments and exchange problems and will remove some of the features of the existing system which had been deemed to be in conflict with the policies of the Fund, such as the export premium on basic export commodities.

Colombia and the Fund will continue consultations with a view to the adoption of measures in the financial and monetary field designed to lead toward further unification, simplification and strengthening of the exchange system.

The Investor and the Business Cycle

(Continued from page 3)

taxes. With individuals facing an almost certain increase within the next few years, the tax bracket becomes determinative of the investment method to be employed. The cycical investing approach, admittedly a most trying method of managing investment funds, offers the promise of coping successfully with the problem of maintaining principal while achieving a return commensurate with the risks involved.

Trend of Profitability

In speaking of business cycles, we refer to the trend of profitability in the economy as distinct from the over-all level of business. That is to say, the business cycle concept as here used refers to the trend of unit earnings (e.g., General Motors' profit per Chevrolet, U. S. Steel's profit per ingot produced). Accordingly, it follows that the successful employment of the cyclical approach depends upon careful analysis of fundamental economic trends. It has nothing in common with the mechanistic or formula type of market forecasting since the cyclical method is indifferent to the level of stock prices as such.

For the conservative investor, the most important question is, where does the cycle of profitability stand today? In an earlier article in the "Chronicle," "Is This a Bull Market?", published May 27, 1948, we outlined our reasons for stating that unit earnings, i.e. profit margins, were contracting. In fact, our researches indicate they had ceased expanding by the early part of 1946, and since have vacillated within a narrow range.

It is our opinion that it is the failure of profit margins to expand that explains the otherwise inexplicable situation of the last two years, when production, prices, and profits continuously advanced to new highs, while capital values remained relatively unchanged. This stresses the importance of differentiating between mere economic activity and relative profitability resulting from such activity. This same condition was presented in an even more exaggerated form from 1939 to 1942, when despite an 83% rise in the F.R.B. and 88% in after-tax corporate profits, security prices declined 26%. Reduced to fundamentals, profitability in terms of earnings per unit of production was in a minor down-cycle.

Historically the cycle of profitability and the general business cycle have moved in unison. This held true until the mid-1930's. At that time, there was injected into the economy's operation a new and powerful element, strategic government spending during periods of peace as well as war. Despite the concomitant increase in business activity, the faster rise in cost of materials and labor constricted unit profits. As a result, beginning in 1939 and continuing to 1942, the two cycles operated out of phase. Following the settlement in 1942 with respect to the formula for calculating excess profits taxes, and the agreement on fixed prices and wages, unit earnings rose and they operated in phase again for the next four years. Since 1946, the resumption of peacetime strategic spending has thus far succeeded in maintaining a high level of business activity despite a marked failure of profit margins to expand. In fact, for large sectors of the economy, squeezed profit margins resulting from dangerously increased breakeven points, have actually declined. This condition, when viewed in the light of the extreme imbalances developed by an unprecedented price inflation, lead inevitably to the conclusion that the flood-tide of profitability in our economy has for some time been ebbing, even if imperceptibly.

In conclusion, we return to our original observations regarding investor experience during the last two decades. This experience, we believe, offers convincing evidence that common stock ownership can only be justified during the rising phase of the profit cycle. Accordingly, if our analysis is correct that a major peak in that cycle has already been reached, investment portfolios should be confined to only the highest-quality fixed-income securities.

TABLE I

RELATIVE INVESTOR EXPERIENCE

A Record of $100 Invested in Various Media

Yrs. End. Dec. 31	Dow-Jones 30 Industrial Stocks Cumul. Value	Dow-Jones 30 Industrial Stocks Cumul. Yield	Savings Bank Depos. at 2½% Cumul. Value	Savings Bank Depos. at 2½% Cumul. Yield	U. S. Government 3's Due June 1,'61 Cumul. Value	U. S. Government 3's Due June 1,'61 Cumul. Yield	Norfolk & Western 4's Due Oct. 1,'96 Cumul. Value	Norfolk & Western 4's Due Oct. 1,'96 Cumul. Yield
1930	100	---	100	--	100	--	100	--
1921	51	—49.0	102	2.5	95	—5.0	93	—7.0
1932	43	—28.4	105	2.5	108	+4.0	110	+5.0
1933	69	—10.6	108	2.6	113	+4.3	113	+4.3
1934	73	+ 6.7	110	2.6	118	+4.5	127	+6.7
1935	100	0.0	113	2.6	126	+5.2	136	+7.2
1936	126	+ 4.2	116	2.7	135	+5.8	146	+7.6
1937	95	+ 2.2	119	2.7	136	+5.1	148	+6.8
1938	119	+ 1.1	122	2.7	141	+5.1	151	+6.4
1939	120	+ .5	125	2.8	147	+5.2	159	+6.5
1940	111	+ 1.1	128	2.8	155	+5.5	167	+6.7
1941	105	+ .5	131	2.8	162	+5.6	171	+6.4
1942	113	+ 1.1	134	2.9	164	+5.3	173	+6.1
1943	128	+ 2.1	138	2.9	172	+5.5	180	+6.1
1944	141	+ 2.9	141	2.9	176	+5.4	190	+6.4
1945	170	+ 4.7	145	3.0	179	+5.3	195	+6.3
1946	165	+ 4.0	148	3.0	175	+4.7	196	+6.0
1947	173	+ 4.3	152	3.1	171	+4.2	195	+5.6

TABLE II

STATIC *VS*. CYCLICAL METHOD OF INVESTMENT

A Record of $100 Invested in the Dow-Jones 30 Industrial Stocks

Years Ended Dec. 31	STATIC Mkt. Val.	STATIC Cum. Divs.	STATIC Cum. Val.	STATIC Cum. Yield	D. J. Ind. Avge.	CYCLICAL (Purch. 15% above Lows—Sold 15% below Tops) Mkt. or Cash Val.	Cum. Divs.	Cum. Value	Cum. Yield	Date of Transact.	Mkt. Level
1930	100	--	--	--	165	100	Nil	100	--	--------	--
1931	47	4	51	—49.0	78	100	Nil	100	--	--------	--
1932	36	7	43	—28.4	60	100	Nil	100	--	--------	--
1933	61	8	69	—10.6	100	174	4	178	26.1	Bought April	58
1934	63	10	73	— 6.7	104	182	9	191	22.6	--------	--
1935	87	13	100	--	144	250	16	266	33.1	--------	--
1936	109	17	126	+ 4.2	180	313	29	342	40.5	--------	--
1937	73	22	95	— .7	121	288	36	324	32.0	Sold June	166
1938	94	25	119	+ 2.4	155	402	45	447	43.4	Bought April	111
1939	91	29	120	+ 2.2	150	354	49	403	33.7	Sold March	136
1940	78	33	111	+ 1.1	129	354	49	403	30.3	--------	--
1941	67	38	105	+ .5	111	354	49	403	27.6	--------	--
1942	72	41	113	+ 1.1	119	402	60	462	30.1	Bought June	105
1943	83	45	128	+ 2.1	136	458	82	540	33.8	--------	--
1944	92	49	141	+ 2.9	152	513	104	617	36.9	--------	--
1945	117	53	170	+ 4.7	193	644	126	770	44.5	--------	--
1946	107	58	165	+ 4.0	177	608	143	751	40.7	Sold Sept.	181
1947	110	63	173	+ 4.3	181	608	143	751	38.3	--------	--

Price Control, Higher Taxes—Double Profit Squeeze

(Continued from page 5)

reduce 1949 pretax profits in the weakening business lines by about 10%, equal to some $1.7 billion. On the other hand, an increase in our cash spending on defense by about $3 billion might, approximately, offset that decline, though it would mostly benefit those industries which remain, anyhow, in a strong market position. Thus, at best, over-all pretax profits of corporations might have been maintained in 1949 around their recent $34 billion annual rate, were it not for the new wage hikes and price controls.

The fourth round of wage increases has already started and will probably run its course. The additional payroll of private nonfarm enterprise, based upon an 8% increase in hourly wages, and on present employment and working hours, may aggregate some $6 billion annually. As already mentioned, an estimated one-half of the country's manufacturing industries, and much of its trade are, even in a free market, no longer in a position to shift the additional cost to the consumer; a number of other industries, basically still strong enough to do that, would, for reasons of long-range policies, be likely to absorb part of the additional cost. It therefore seems a fair estimate that about 50% to 60% of the $6 billion rise in total payrolls would, in any case, be absorbed by business, leaving some $2.4 billion to $3 billion to be shifted to the consumer under free market conditions.

If, then, "stand-by" price controls were enacted early in 1949, establishing, in fact, fairly effective price ceilings on all prices around present levels, without directly limiting wage hikes, this would depress total pretax corporate profits to an annual rate of $28 billion, or $2.4 billion to $3 billion below what they could be without enactment of such controls. The direct effect on aggregate corporate profits of an 8% wage hike plus price controls may be summarized as follows:

Estimated Direct Minimum Effect of Price Controls and 8% Wage Hike on Corporate Profits

(In billions of dollars)

	Est. Annual Rate after Wage Hike With Price Control	Est. Annual Rate after Wage Hike Without Price Control	Current Annual Rate
Pretax corporate profits	$28.0	$31.0	$34.0
*Net corporate profits	17.4	19.2	20.8

*On present 38% corporate tax.

The Direct Profit Squeeze Through a Raise in Corporate Tax Burden

Under the combined direct effect of wage hikes and price controls, corporate tax revenues of the Federal Government at the present 38% rate would probably go down to an annual rate of about $10.6 billion from the present annual rate of $13.2 billion. On the other hand, the Federal Government may try to increase its revenues by about $2 billion, in order to avoid a threatening deficit in the 1949-50 fiscal budget. Since not very much can be expected from a hike in the upper brackets of the individual income tax, eyes in Washington are turned on the apparently lush profits of corporations.

Sugar coating a corporate tax bill by allowing higher depreciation charges, does not make much sense, from a strictly fiscal viewpoint, since corporations would only be given with the left hand, what is being taken away from them with the right hand (this is not to deny that current depreciation of prewar or wartime built property is insufficient, if replacement prices can be assumed to stay far above cost for a prolonged period of time).

The following table will give a rough idea of what corporate tax rates would have to be, in order to squeeze some $15 billion of Federal revenue out of the corporations; the table shows two alternative tax bases, (1) a straight corporate tax, and (2) an excess profits tax, superimposed on the present 38% corporate tax; net EPT exemption for aggregate corporate profits is assumed to equal, roughly, average total corporate profits in the 1936-39 period, upped by 60% as an inflationary adjustment (the 40% adjustment suggested by Rep. Dingell would necessitate somewhat lower rates).

Alternative Minimum Tax Rates Required to Yield $15 Billion Revenue

Pretax Corporate Net	Approx. Corporate Rate Required	†Approx. Excess Profit Tax Required
$34.0 billion (present rate)	44.0%	47.0%
30.0 billion	50.0	57.0
28.0 billion	53.5	63.0
26.0 billion	57.5	71.5
23.0 billion	65.0	89.0
21.0 billion	71.0	*

†Basis explained above. *Not even a 100% EPT could yield $15 billion, unless corporate profit tax, too, were raised.

Thus, if pretax corporate profits, under the direct impact of easing demand, higher wages, and price ceilings, decline to $28 billion, as estimated earlier, it would be necessary to raise the corporate tax rate from 38% to 53.5%, or impose a 63% EPT of the type described, in order to obtain $15 billion of revenue—provided business goes on, undeterred by such a formidable proposition!

Before drawing a final conclusion from these over-all estimates, it may be interesting to see what all this would mean in terms of individual profit margins.

Current profit margins of manufacturing corporations, before Federal tax, average 10.5% to 12%, or 6.5% to 7.5% after the 38% tax. While actual manufacturing margins vary widely, even within the same industry, we take the 11% pretax average (equal to 6.8% net after present 38% tax) for the sake of a fair illustration; this is, what full absorption of an 8% wage increase under price control, plus an increase in Federal taxes, would do to companies whose operating revenues are absorbed by payroll to the extent of between 20% and 60%—assuming, for the moment, no decline in business volume.

In other words, taking the 53.5% rate, found to be the minimum rate required under our set of assumptions to produce a $15 billion revenue goal, a low labor cost business, now averaging 11% before Federal income tax, and 6.8% after that tax, would see its profits directly cut by at least 35% to 41%, while a high labor cost business, now operating on similar margins, would suffer a direct profit reduction of at least 52% to 57%. Obviously, many corporations now operating on lower profit margins would be hit even more severely, while the reverse, of course, would be likely to happen to companies now enjoying above average margins. In the already weakening business lines, profits would melt even faster; for companies facing softening markets, the immediate impact on profits by an excess profits tax might often turn out to be less drastic than that of an increase in the combined corporate tax.

Direct (Minimum) Effect of 8% Wage Hike and Tax Rise, Plus Price Control, on a 6.8% Net Profit Margin

(Figures Represent Remaining Net Profit Margin)

Federal Corporate Profit Tax Charged—	Payroll Absorbs 20% of Oper. Rev.	Payroll Absorbs 30% of Oper. Rev.	Payroll Absorbs 40% of Oper. Rev.	Payroll Absorbs 50% of Oper. Rev.	Payroll Absorbs 60% of Oper. Rev.
After 38% tax	5.80%	5.30%	4.85%	4.35%	3.85%
After 44% tax	5.25	4.80	4.35	3.90	3.45
After 50% tax	4.70	4.30	3.80	3.50	3.10
After 53.5% tax	4.37	4.00	3.62	3.25	2.87
After 58% tax	3.98	3.65	3.31	2.97	2.63
After 65% tax	3.29	3.02	2.74	2.45	2.17
After 71% tax	2.72	2.49	2.26	2.03	1.80

Admittedly, those are only a few rough estimates of what might be the direct, minimum effect on average corporate profits if price controls and higher taxes materialized, simultaneously with a fourth round of wage increases. However, these estimates give, at least, some idea of what would be in store for business in that case, and they make it easy to foresee what the eventual reaction of private initiative would be to such a drastic deterioration in profit prospects. A glance at those figures should convince even the wildest optimist that business volume could no longer stand up in any area of our economy, and that a most dangerous deflationary spiral would probably be started through the economic policies now under consideration. With the private sector of the economy now accounting for about 85% of gross national product, a short-circuit in that sector would be calamitous, forcing upon the country an ill-planned expansion in government activities of gigantic proportions whose monetary and political repercussions would be distasteful to nearly all Americans.

The truth is that, barring an unexpectedly sharp acceleration in defense expenditures, we have arrived at a point in the postwar business cycle where deflationary forces are slowly gaining; consequently, any double-barreled attack on profits, to counter the remaining forces of inflation, would be belated and likely to precipitate an economic tailspin. If stand-by controls are enacted to check a new inflationary break-through at a few danger spots, they ought to carry explicit limitations as to their applications; as long as wages are not frozen, price hikes, merely sufficient to offset new wage increases, should be explicitly permitted.

Higher taxes should be avoided at this point, unless a very sharp step-up in defense spending became necessary. Control of defense spending could probably be much improved; any brusque increase in welfare spending should be delayed. If the threat of a deficit, then, persists nevertheless, it should be covered through loans from non-bank investors rather than through higher taxes on corporate profits. This may sound like economic heresy, in view of the existance of our big public debt, but if there is one thing we can afford even less than a temporary relapse into voluntary deficit financing, it is raising corporate taxes now to the point where they may tip the balance and start a sharp recession which would, eventually, force us into deficit spending on a much larger scale. It is unfortunate that political circumstances have reduced the elasticity of the greatly inflated Federal expenditures at a time when the business boom is losing some of its staying power. Our economic policies should now be adjusted to the fact that at least for the time being, the equilibrium in our economy has become more precarious on the downside than on the side of inflation.

As We See It

(Continued from first page)

ing toward the same end. Wilson was active in the same undertaking, and in one way or another others following have done so too. For two obvious reasons the tasks of the Hoover group were both more difficult and more needed at this time than ever before. There are probably agencies or bureaus or departments in the national Government now which are as large as the entire executive branch in President Taft's time. Since the advent of the second Roosevelt, the executive establishment has grown like a mushroom, and in doing so spread out in utter confusion and ineffectiveness. Politics as always played its part in bringing this result into being, but sheer administrative incompetence was and is fully as much at fault. It remains to be seen whether the second Truman Administration is prepared to do more to correct the situation than have the other administrations which have gone before. It is one thing to be told how to replace the present scrambled organization with one more effective and quite another to gain the consent and support of the individuals and agencies whose cooperation is necessary for the success of the reorganization.

The Real Question

All this is, of course, of first rate importance, but there is another aspect of the matter which will not be forced out of our mind. This story of governmental incompetence is an old one. It is traditional in this country where it is worse than in many others, but everywhere it is bad enough. With the growth in size and complexity of government, and with influx into office of day dreamers without end, the situation has grown continually worse in recent years. Yet it is to government that we are being told to turn for our salvation. When prices do not suit us, it is government which is asked to "fix it." When unemployment threatens or has become widespread government is expected to correct the situation. When private capital does not undertake what we are told it should, government must attend to it, according to the "modern" political scientist. Privately owned and privately managed economies have not been able to avoid ups and downs in business which it is now fashionable to call cycles; it is now encumbent upon government to step in and so "manage" the economy that we shall have perpetual prosperity.

All this is especially true of the national government in this country because—although probably relatively few realize it—it has the power to coin money, that is, in practical effect to create the funds it wants for these sundry purposes without having to take them directly from the taxpayer or from borrowers with savings to lend, as, generally speaking, other governmental agencies must do. Of course the process is painless only for a very short period of time, but that is a detail usually overlooked or not understood by the rank and file. For a number of decades, but particularly since the rise of the New Deal, many citizens of this land have acquired the habit of expecting their central government to look after them, or at the very least to do for them the things that they find it difficult or inconvenient to do for themselves.

YET IT IS THIS NATIONAL GOVERNMENT WHICH MR. HOOVER AND HIS ASSOCIATES HAVE NOW FOUND SO WANTING IN THE MOST ELEMENTARY REQUIREMENTS OF OPERATING EFFECTIVENESS. NO ONE HAS RISEN TO CHALLENGE THE FINDINGS AND NO ONE IS LIKELY TO BE ABLE TO DO SO SUCCESSFULLY SO FAR AS FUNDAMENTALS ARE CONCERNED. THE TENDENCY, IN POINT OF FACT, APPEARS TO BE TO ACCEPT THEM AS OBVIOUSLY BASED UPON SOLID FACT. IT IS INDEED A STRANGE SITUATION.

Similarly in Local Governments

Now no one who has cut his eye teeth doubts for a moment that in many of our State capitals and in governments of our cities much the same chaos and incompetence exist. Indeed, when the contrary is the fact, the case is generally regarded as something so exceptional as to give the individual responsible for it national prominence forthwith. The chief difference is the scale on which all this goes on. Yet we find throughout most of the land a tendency to look to State and local governments to do what it is obviously the function and the duty of the individual to do for himself. Cities and other smaller governmental units are besieging their State governments to provide "assistance" for various projects, and the States have not got over the habit of asking for help from Washington.

That such strange notions as these are not losing force appreciably in this country is evidenced in the election this autumn. The trend is to be seen not only in the results, not even chiefly in the results, but in the fact that not one major candidate for the Presidency, indeed not any candidate for the Presidency so far as we are aware—and we had almost said including the primaries which preceded the national campaign in the autumn—failed to make clear with great emphasis his firm conviction that governmental activity in this country must henceforth embrace a great deal of the sort of thing which now goes under the general term of "welfare economics"—which often is but another name for paternalism carried so far that it is difficult to distinguish it from socialism or communism. And none of the political leaders of the day hesitate to warn, whenever the occasion appears appropriate, that if private industry fails to do this or that or if some other thing happens nothing will be left but for the Government to step in and "do the job." Heaven help us if we can not understand the plain implications of these lengthy and painstaking reports of the Hoover organization.

Their Function

Of course it was not the function of Mr. Hoover and his associates to consider whether or not the Government of the United States should undertake to do many of the things it undertakes. That is a question of broad policy. Its duty was merely to find a way in which the Government could do whatever it had to do more effectively and more efficiently. To this task it brought unusual talent and capacity. Certainly, its recommendations must receive the most careful attention of both Congress and the President. If we must have a semi-totalitarianism in this country, by all means, let us have one which operates with technical efficiency.

But if we miss the lesson which these tales of organizational confusion and administrative helplessness carry as regards broad national policy we can scarcely fail to pay a heavy penalty.

Measurement of Utilities Capital

(Continued from page 7)

issued and sold in 1946, was in the amount of 1.0225% of the amount of bonds issued. The per cent of underwriting discount or commission amounted to .5598%, whereas, corporate cost amounted to .4627%. In terms of yield or cost to the company, the increase would be approximately .05%. A change of 1.07% in the price of a 35-year, 3% bond, selling at par, results in a change in yield of .05%, based on bond basis tables. A similarly constructed weighted average cost for the year 1947 was 1.0257%. Total underwriting and corporate costs in 1948 have shown no variation of consequence. The weighted average cost of similar bonds sold through August, 1948, was 1.0174%.

The weighted average underwriting and corporate cost of electric light and power and telephone company bonds rated "A," issued and sold through August, 1948, was 1.3527%. If the study is made to cover bonds rated "A," where the amount of the issue was $5,000,000, or less, for 1948, the combined underwriting and corporate costs become 1.4932%. Costs in connection with the issuance of "Baa" bonds, where the amount of issue was $5,000,000, or less, in 1948 was 1.9155%. However, only three issues were included in this study. Due in part to the introduction of competitive bidding, these costs are now lower than the costs suggested in the Federal Communications Commission report, and the conclusions there expressed on p. 87 as follows:

"The conclusion reached from the preceding analysis is that during this recent period the effective cost of capital obtained through bond issues of large size typically includes 0.16% for cost of financing. For the purpose of adjusting yields to investors at market prices to the basis of current cost to the company, two-tenths of 1% appears to be a sufficient margin to represent cost of financing in the great majority of situations. The frequency distribution shows that in more than 80% of the issues over $10,000,000 the financing costs experienced by the utilities have been within this limit. In the entire group of bonds issued during 1935, 1936, and 1937, herein studied, 75% of the cases had financing costs of 0.20% or less."

Preferred stock, as a vehicle for acquiring capital has been used in varying degrees by utility companies. The Bell System, which is by far the biggest factor in the telephone industry, has practically no preferred stock outstanding; the actual amount being approximately $17 million, which represents the publicly-held portion of an $82 million issue of the Pacific Telephone & Telegraph Company. The independent telephone companies, such as General Telephone Corp., as well as the smaller independents, have utilized preferred stock in many cases; the amount being generally from 15% to 20% of total capital structure. The electric utility industry, on a composite basis, at the close of 1946, showed debt in the amount of 46.06% of capital structure, preferred stock in the amount of 15.20%, and common stock and surplus in the amount of 38.74%.

In a separate study covering six large electric utility companies, including Boston Edison, Consolidated Edison of New York, Consolidated Gas Electric Light & Power of Baltimore, Detroit Edison, Commonwealth Edison, and Southern California Edison, the composite structure showed 48.09% of debt, 12.15% of preferred stock, and 39.76% of common stock and surplus.

These ratios can be compared with a composite ratio for five large combination electric and gas companies, which in 1947, on a combined basis, had 51.71% in the form of debt capital, 19.65% in the form of preferred stock capital, and 28.64% in the form of common stock and surplus. The five combination companies studied in this group were Cincinnati Gas & Electric, Consumers Power, Pacific Gas & Electric, Public Service Company of Colorado, and San Diego Gas & Electric.

In arriving at any estimate of over-all capital cost, it is proper to give consideration to the cost of preferred stock capital if, as a result of such inclusion, the capital structure of the company is in no way impaired and if such inclusion results in a reduction in over-all capital costs. It is proper to predicate an estimate of over-all capital cost on what may be termed an "optimum" capital structure, i.e., a structure which, consistent with financial integrity, results in the most economical cost figure.

The approach suggested in the Federal Communications Commission report, relative to the determination of preferred stock cost, is similar to that suggested in respect to the determination of the cost of bond capital. That is, a large number of preferred stocks were examined for the purpose of selecting the issues suitable for a study of relationships between yields at market prices, and number of times requirements were earned. As a result of such study, a group of preferred stocks were selected and, based upon prices as at selected dates and coverage ratios, a series of scatter diagrams was prepared showing the "yield coverage relationships." Here again, it was found that as "times requirements earned" increased, yields decreased. This is equivalent to saying that as the absorption ratio increased (the absorption ratio now being defined as the amount of total income available required to meet interest and preferred stock dividends), the yield, based on market price, likewise increased.

It will be found convenient, in studying the probable cost of preferred stock money, to deal with current offerings of utility company preferred stocks. In proceeding with such study, yields to the public in respect to a wide list of preferred stock may be related to the current Standard Statistics Preferred Stock Yield at the date the issue was offered. It will be found that the quality of the issues, determined in part by the per cent charges to total income available, determines the extent to which the yield at offering varies from the Standard Statistics Preferred Stock Average. Generally speaking, the higher the ratio of charges to total income, the greater the deviation which the offering yield bore to Standard Statistics Average.

One may then proceed to develop a regression study by using two variables: (1) the absorption ratio at the time of offering, and (2) the difference in yield above or below the concurrent yield on Standard Statistics High-Grade Preferred Stocks. As a result of such a study, predicated on all utility and telephone company preferred stocks floated in 1947 and 1948, utilities whose bonds are rated "A" or better by Moody, it was found that the variable component of the equation was .02842%, which indicates that for each 1% increase in absorption ratio, there was a corresponding increase in the differential of .02842%. However, at "zero" absorption the yield differential was —.66916%, indicating that it is possible in the case of a particularly high-grade preferred stock to have a yield below the Standard Statistics High-Grade Preferred Stock Yield. Some judgment would be required in respect to preferred stocks with very low absorption ratios, due to the fact that below a certain point, there is little variation in terms of yield. On the basis of such a study, it is possible to determine for a given company the probable yield differential above or below the current Standard Statistics Average Yield on High-Grade Preferred Stocks.

The combined underwriting and corporate costs of all preferred stocks issued in 1947 and 1948 was in the amount of 3.347%. If larger

issues are excluded, the marketing costs, on a percentage basis, increased. For issues in the amount of $5,000,000, or less, total marketing costs were approximately 4.75% of the amount of issue.

Comon Stock Capital

A study of the cost of equity money may properly be directed, in the first instance, to a study of earnings: price ratios established either in connection with the stock of the company under consideration, or of stock of similarly situated companies. This is the approach adopted in the Federal Communications Commission's report. Thus, on p. 166 (FCC report) it is stated:

"... **The fundamental problem is to determine what dividends and what contributions to corporate surplus are necessary and proper in order to maintain for the company that healthy credit position which will enable it to raise needed additional capital at a reasonable cost.**

"Although this acceptable 'cost' of common stock capital cannot be determined for any given corporation solely from the actual amount of dividends paid and surplus contributions, the measurement of such 'cost' as a factor in properly allowable 'return' may apparently be approached from the point of view of the stock market's evaluation of the corporation's dividends and earnings. Here the question becomes: At what rate does the stock market (i.e., investors as a class) capitalize the dividends and surplus earnings of the corporation? The answer to this question may be arrived at through an examination of the ratio of these factors to market prices of the common stock. The market evaluation of earnings and dividends, rather than their absolute amount, thus becomes determinative of this element of necessary return.

"The methods of measuring the return expected by those who contribute equity capital were discussed in Chapter V. It was there concluded that, in spite of certain possible objections, the earnings-price ratios is the most logical, in fact the only available, measure of the return expected by investors. . . ."

It is, of course, necessary in using earnings-price ratios to exercise a certain amount of caution. Due weight must be given in any use of earnings-price ratios to future or anticipated earnings, if there is evidence to indicate that such future or anticipated earnings are likely to vary from present or immediately past earnings. Proper attention must be given to any unusual dividend experience. Earnings-price ratios may be sustained at improperly high levels through dividend pay-outs. This is especially true where dividends exceed earnings. Likewise, companies with a satisfactory record of past earnings may, in a given year, because of some unusual set of circumstances, suffer a material and temporary reduction in earnings. In such cases, the price of the stock does not necessarily drop proportionately, with the result that earnings-price ratios for this particular stock, under such circumstances, may become very low.

This may well be demonstrated by a study recently made of the current or "spot" over-all capital costs of three Bell System companies. In such a study, it was found that for three large, representative, Bell System companies, the earnings-price ratios for the year 1943 averaged 6.25%; for 1944, 5.52%; for 1945, 5.00%; for 1946, 4.38%; and for 1947, 3.11%. Obviously, these earnings-price ratios are materially out-of-line with typical earnings-price ratios currently found in respect to utility companies. The reason for this anomaly is the fact that these companies are all suffering from a current decline in earnings; due to higher operating costs, which have not as yet been compensated for by higher rates, due to the slowness of the regulatory processes. Investors continue to feel confident that fair rates will eventually be established and that earnings will again be restored to previous levels. The prices of the stocks of these companies, therefore, have not declined **pari passu** with earnings. As a result, current earnings-price ratios are "out-of-line." It becomes necessary, therefore, to discard evidence of this type in arriving at a proper appraisal of the cost of equity money to these companies.

One could, undoubtedly, give other illustrations to show that caution must be used when employing price-earnings ratios as evidence of current investor expectation rates of return.

The procedure relative to assembling evidence as to the cost of common stock money is similar to that employed in the case of bonds and preferred stocks. It is necessary and advisable to study current earnings-price ratios and past earnings-price ratios for a comprehensive list of stocks, not only of companies closely similar to the company under consideration, but earnings-price ratios of stocks of companies in other lines of enterprise, where competition is offered by such companies in the capital markets for equity capital. The Federal Communications Commission report developed regression studies in connection with the common stocks of utility companies, similar to the regression studies developed in connection with bonds and preferred stocks. The results of these studies are tabulated on pp. 142 and 143, in Charts 30 and 31. Here, the two variables are earnings-price ratios and percent of gross corporate income available for common stock equity. Correlation curves drawn by inspection are likewise developed for the data for each of the eight periods studied, and the conclusion is drawn that, as the percent available for common increases, the earnings-price ratio correspondingly decreases.

In current studies covering more recent years essentially the same procedure was employed, except that instead of using the percent of gross corporate income available for common stock equity, the amount of gross corporate income absorbed by prior charges was used. Thus, in these studies, one would expect an increase in earnings-price ratios as the percent of gross corporate income absorbed by prior charges increased.

One comprehensive study was made, based on 14 of the electric and combination utility companies used in Schedule 25 of the Federal Communications Commission study. These companies may be tabulated as follows:

Boston Edison Company.
Central Hudson Gas & Electric Corporation.
Cleveland Electric Illuminating Company.
Commonwealth Edison Company.
Connecticut Power Company.
Consolidated Edison Company of New York.
Consolidated Gas, Electric Light & Power Company of Baltimore.
Detroit Edison Company.
Duke Power Company.
Hartford Electric Light Company.
Pacific Gas & Electric Company.
Pennsylvania Water & Power Company.
Southern California Edison Company.
Tampa Electric Company.

In this study, there was computed for each company, and for each of the year 1936-1947, inclusive, the earnings-price ratios and the ratio of charges-total income available. The data for each year was plotted on a series of scatter diagrams. In the year 1936, regression was indicated. In other words, as the percent of charges-total income increased for a given company, so did the earnings-price ratio, and a second-degree curve adapted to this data provided a fairly good fit. To a lesser degree, the same thing can be said of the years 1937 and 1938. From 1939 on, the correlation became less pronounced, and in the years 1943, 1944 and 1945, the plots extended in a straight, horizontal line, with no correlation indicated between the ratio of charges-total income and the ratio of earnings-price. In order to develop any material correlation in respect to absorption ratios and earnings-price ratios for these 14 companies throughout the period, it was found necessary to average the earnings-price ratios for each company for the entire period 1936-1947, as well as the ratios of charges-total income, and to develop a composite or average **period** figure for each company. On the basis of the 12-year averages, it was possible to develop a curve of correlation for the data, although the correlation was not as good as might be expected. Solution of this equation gave a value to A of 4.872%; to B, +.0797%; and C, —.000506%.

As a result of the lack of good correlation, it will be found that arithmetic weighted averages, in many cases, provide about as satisfactory a method for studying earnings-price ratios as do studies predicated upon regression.

As a result of the lack of correlation between earnings-price ratios and absorption ratios, as well as a similar lack of proper correlation found in respect to interest yields and absorption ratios, considerable doubt is cast upon the efficacy of the methods employed by the Federal Communications Commission in estimating overall costs of capital for varying proportions of bonds and common stock in the capital structure, and for developing the optimum point, cost rate, and type of capital structure.

I have made a number of studies for the purpose of determining, for groups of utility companies, their current or "spot" overall capital costs, based upon existing capital structures and the current market prices of their securities, and found, as a result of such studies, that it is difficult if not impossible to develop any formulae by means of which an optimum capital structure can satisfactorily be developed.

Thus, in a study of "spot" capital costs for a group of six large electric utilities (Boston Edison, Commonwealth Edison, Consolidated Edison of New York, Consolidated Gas Electric Light & Power of Baltimore, Detroit Edison, and Southern California Edison), it was found that the current or "spot" overall capital costs for the group were as follows: 1943, 5.900%; 1944, 5.181%; 1945, 4.907%; 1946, 5.147%; 1947, 5.473%; and 1948, 5.891%. These companies were all very highly rated and may be said to represent the "cream of the crop" as far as the electric utility industry is concerned. The capital structures of these companies, throughout the period, showed approximately 40% in bond capital, approximately 12% in preferred stock capital, and approximately 48% in common stock and surplus.

Another group of five combination electric and gas companies was examined, which while high-grade companies, were not of quite the investment caliber as the first group. The following current or "spot" overall capital costs were found for the period 1943-1948, inclusive: 1943, 5.349%; 1944, 4.788%; 1945, 4.293%; 1946, 4.662%; 1947, 4.698%; and 1948, 5.015%. Despite the lower investment status of this group of companies, capital costs were materially lower. On the other hand, this group of companies showed consistently a capital structure consisting of approximately 50% in bond capital, 22% in preferred stock capital, and only 28% in equity capital. Apparently, the second group of companies achieved a much greater economy in reference to capital costs than did the first group of companies by deteriorating their composite capital structure.

Other instances might be cited where low spot capital costs have been achieved by specific companies through even greater deterioration of capital structure. This situation could not exist if the same degree of correlation between either yields and absorption ratios and/or earnings-price ratios and absorption ratios were currently prevalent as are suggested by the data in the Federal Communications Commission's report.

In the last analysis, costs for specific types of capital and overall capital costs must be developed not by a mathematical procedure, but by judgment, tempered by a comprehensive study of what is going on in the market. It must be realized that the credit of a company should be so maintained that, under normal circumstances, it can enter the capital markets and obtain appropriate amounts of bond money, preferred stock money, and common stock money on satisfactory terms. At this juncture, it should be emphasized that common stock money cannot be obtained on satisfactory terms when its market price is below book value.

The costs of acquiring common stock equity will depend, to some extent, on the distribution methods used. In the case of stock marketed by underwriters, directly to the public and not via rights, costs today will average between 6.5% and 7.5% of proceeds. Where stocks are sold by means of rights, a proper allowance must be made for "pressure." Studies in respect to "pressure" contained in the Federal Communications Commission report are inadequate. The American Telephone & Telegraph Co. has made exhaustive studies relative to the allowance that should be made for "pressure" by studying the behavior of all stock issues brought out through rights from 1936 to 1946. The study is not only inclusive, but employs excellent statistical technique, in that the amount of "pressure" is developed by referring the market price two days prior to the announcement in each case to the lowest price at which the stocks, plus rights, sold while the rights were being traded. Allowance is made in this study for general market movements by adjusting the discount and/or premium registered by the stock at its lowest point while the rights are traded, to movements in the Dow-Jones Industrial average. In this way, the "pressure" resulting purely from the offering of stock can be screened out.

A further study of the material furnished by the American Telephone & Telegraph Company may be made, from which one can develop a weighted average of "pressure" predicated upon offerings of stock to stockholders for the period 1936-1946, inclusive, of companies whose volume of business in the year of offering exceeded $5 million, and which had paid continuous dividends on common stock for 5 years prior to date of offering. On the basis of this study, it will be found that the mean amount to be allowed for "pressure" should be about 10.79%.

An allowance of some 12.5% to 15% probably represents a safer figure. In view of the fact that underwriting costs are very low, generally speaking, in the case of issues of stock via rights, the figure 12½% to 15% may be assumed to include both an allowance for "pressure" as well as an allowance for necessary underwriting and corporate costs. On this basis, the maximum allowance for marketing costs in the case of common stock equity is 12.5% to 15%. On this assumption, whatever earnings-price ratio is developed and arrived at, as a result of marketing studies, should be adjusted by dividing such figure by .875 or by .85 to account for marketing costs.

Over-All Capital Cost

There remains, now, only the matter of over-all capital structure to be determined. In view of the lack of proper correlation between earnings-price ratios and absorption ratios; and interest yields and absorption ratios, the methods suggested by the Federal Communications Commission and summarized in part on p. 152, Table 13, appear to be inadequate for determining the best type of capital structure. In other words, it does not appear possible, in view of present conditions, to estimate over-all costs of capital by varying the proportion of bonds and common stock in a capital structure and statistically to obtain an optimum point in respect to cost rate and per cent. of bonds. Rather, it becomes necessary to develop a logical capital structure by other methods of comparison. This can be accomplished in one of two ways. First, one can determine, by analyses and a study of comparative companies, what the absorption ratio should be for each class of securities. In other words, if it is determined to develop a capital structure whereby bonds will absorb say 25% of income available, preferred stock 15% of income available, leaving 60% available for the common stockholder, it is then possible to convert each class of capital by means of a simple formula whereby the absorption ratios and the cost rates assigned to each class of capital are converted into an over-all or composite cost figure. The alternate method is to determine for a unit of $100 of capital the amount to be assigned to bonds, to preferred stock, and to apply to each of these specific units, the cost rate determined for each class of capital.

In either case, final determination of what the capital structure of the company shall be for purposes of determining an over-all cost of capital will depend on judgment. Some commissions have indicated their concept of a proper capital structure. For example, in recent telephone cases, the California Commission has suggested a 50% debt ratio for the Pacific Telephone & Telegraph Company. In New York State, the Commission appears to favor a rate of return predicated upon a capital structure for utilities involving 50% in the form of bonds or debentures, 25% in the form of preferred stock, and 25% in the form of common stock and surplus. However, I am not aware of any New York decision in which these ratios are mentioned.

Some degree of caution should be used in making this final determination. It is easy, with current low interest rates, to conclude that a comparatively large portion of capital should be acquired by means of fixed-income securities. Although this may result in temporarily lowering hypothetical capital costs, it must be borne in mind that the company's financial position is being continuously deteriorated. In the long run, all parties will be better served if the utility company is put in a position of maintaining a relatively conservative capital structure under which it has, at all times, sufficient reserve borrowing power to meet exigencies when general conditions are unfavorable and when it may be required to raise substantial amounts of capital.

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President's Economic Advisers Discuss Planned Economy, Free and Competitive Enterprise And Labor Relations

(Continued from page 4)

with accounts of policies adopted by government for the very purpose of influencing the economy and of restricting or conditioning the choice of a course of private action. The most venerable of these policies is the protective tariff, justified by its advocates upon the ground that it is necessary in order to permit domestic industries to thrive.

Federal, State, and municipal governments, likewise, have repeatedly furnished financial aid to promoters of transportation facilities to hasten regional development beyond the plans or resources of private enterprisers. Direct business activity by government has by no means been uncommon, though bitter-end battles have frequently been waged when a step in this direction has been proposed. When the parcel-post system was established and when urban communities have undertaken to take over water or electric power plants, the people have made a deliberate choice between a wholly free economy and one in which the government engages in business activities which they believed to be inadequately undertaken by private enterprise.

In the field of regulation, interference by government with complete business freedom has existed throughout our history. In colonial days, this regulation extended beyond the public services in such matters as wages and prices. In the first-half of the nineteenth century, conditions in the new nation did not require much regulation. But the National Bank Act, passed during the Civil War, used the taxing power to wipe out note issues by State banks and established rigorous control of the activities of the national banks which it authorized. Soon after that war, the Midwestern States enacted what were known as the Granger laws, to regulate rates of railroads and grain elevators. These were sustained by the courts against claims of unconstitutionality upon the significant ground that the regulation of services and charges of public service businesses had been a recognized function of government since colonial days.

The Interstate Commerce Act of 1887 established a pattern of regulation of public utilities which has become general in Federal and State legislation applying to an expanding list of businesses. To the regulation of rates and service, there has been added the control of financial practices. The one-time privilege of the citizen to enter any lawful business he chose has been modified by a requirement that an official certificate of convenience and necessity must be issued before one may undertake a new public utility enterprise. This extensive and important area of American business has now been almost completely covered by legislation which blends the system of free enterprise with the principle of public responsibility.

Other areas of business have been placed in an intermediate position by regulation which merely limits the discretion of the manager. The Securities and Exchange Act and the Packers and Stockyards Act are among the more important Federal laws which have imposed some degree of supervision upon activities not usually listed in the public service category. In the States there have also been similar trends.

These measures, and many more, have been designed to keep business operations honest, orderly, and economical. They have been introduced mainly, but not wholly, in areas where some considerable degree of monopoly power was inherent or economically desirable. They have sought to prevent the unscrupulous operator from enriching himself at the expense of the buying or investing public who were not in a position to protect their own best interests.

Our national policy has not been entirely free, however, from experiments in government action for the direct purpose of influencing general economic conditions. Prior to the Great Depression, the most notable instance was the use by the Federal Reserve Board of the power of the new Reserve System to influence credit conditions. Operations under the National Recovery Act of 1933 were a spectacular attempt to impose government controls upon private business enterprise for the purpose of dragging prices upward from depression levels and inducing business revival. Government sanctions were put behind codes of practice under which the individual enterpriser was denied the right to fix his own prices, to determine the volume of his production, or to expand his facilities of production.

The Congressional debate upon the bill for the Employment Act supports the history of American policy in affording an interpretation of the phrase, "freedom of enterprise," which is broad enough to permit the Council to propose comprehensive programs of taxation, monetary and credit control, public-works construction, regional development, and social welfare. How far we might properly go in proposing more positive controls is not made specific. The course of Federal and State legislation since the First World War does not permit the conclusion that these categories are frozen, but there are no clear guides by which the Council may determine for which businesses and under what circumstances it may propose positive controls beyond those applied in the past. But we cannot go far astray in this respect, because no proposal of this character by the Council or even by the President can be implemented without Congressional consent, which in the long run involves the consent of the people and—where constitutional issues may be raised—of the courts as well.

The Council is specifically directed by the Act to define **needed** levels of employment, production, and purchasing power throughout the economy. This, of itself, embarks us on a task more far-reaching in scope and bolder in purpose than any previously undertaken with a Congressional mandate.

The Meaning of "Competitive Enterprise"

The American definition of a competitive economic system, as drawn from our national policies, is unique. It falls far short of the theoretical standard, but calls for competition far beyond the requirements of the economic system of any other country.

The Sherman Antitrust Act of 1890 embodied the classical doctrine that in a free enterprise economy the effect of competition extends beyond the assurance of fair prices; it spurs the individual enterpriser to expand his operations and to enlarge his production. There was no distrust of competition nor any fear that its effects might be undesirable. More than 20 years later, Woodrow Wilson expressed the popular view when he said that he took off his hat to the businessman who by selling more at lower prices and by improving the quality of his product was able to run his competitors out of business.

This stalwart opinion has been seriously modified since the First World War, if one may judge public and Congressional sentiment by the series of statutes added to the antitrust laws. Warm admiration for the policy of the Sherman Act has often been expressed, but efforts to strengthen that policy in two substantive provisions of the statute and in the improvement of the enforcement process have been blocked while one exception from the antitrust laws after another have been provided. These began with the exception of exporters in the Webb-Pomerene Act of 1918 and closed, as of this date, with the exception of the railway rate bureaus in the Reed-Bulwinkle Act of 1948.

The tendency toward soft competition has likewise been exhibited in the Robinson-Patman Act, which prohibits price-making policies previously accepted as legitimate features of hard rivalry for business, and in the so-called fair trade practice acts of the States which are supported by the Federal Miller-Tydings Act. The philosophy of the Sherman Act appears to be yielding to a policy of "ethical competition" which does not differentiate between the stability of the individual firm and the stability of the total economy.

There has also been a substantive change in the structure of American business during the past generation, which requires a modification of the concept of "competitive enterprise" if the term is used to describe our economy as it actually exists. This change presents new problems of the utmost difficulty in the task of maneuvering toward economic stability under a system where the direct decisions are made by private business managers.

As late as when the Sherman Act was passed, the normal structure of competitive business contained many firms, each controlling a small part of the total market. In that kind of business world, the restraints upon competition which required attention were those arising from agreements between competitors to fix prices or to control production and those arising from efforts by individual firms to gain a monopoly position by using unfair methods of competition. The Sherman Act was appropriate to enforce the continuance of competition in such an environment. But we now find many industries dominated by a few large corporations. The process of concentration has proceeded so rapidly that, even before the war, it was reported to the Temporary National Economic Committee that four or fewer firms controlled 75% or more of the production of each of the industries which together produced one-third, by value, of all industrial products.

The assumption in classical doctrine that the productive resources of capital and labor were so fluid that they flowed readily into any profit-making opening was supported by observable facts. But it is not true today of a large part of American industry, where mass-production methods have led to the creation of great units which alone can exploit the new technology. The requirements of capital and of organization of forces to initiate a new enterprise present a serious obstacle to the appearance of new competitors in many of our most important industries. These requirements also affect existing firms, and there has been a steady movement in the direction of increasing size as smaller units are merged into larger ones.

The quality of competition becomes very different when industrial control becomes thus concentrated, because the viewpoint of the business manager changes accordingly. If the manager whose firm produces 2% of the total supply sees an opportunity through more aggressive or more skillful marketing methods to double his sales, he will not be deterred by concern about the effect upon the market price. If he must meet the problem of a falling market, he knows that he cannot prop it up by reducing or even halting his production. And so long as the price returns his out-of-pocket costs, there is little reason for him to limit his operations and reduce employment. Indeed, the instinct of the manager at all times is to expand his production, to seek new markets, and to improve his sales efforts. In times of rising markets, he is lured by the prospect of greater profits; when the markets are receding, and unit profits are falling, he responds to the even more urgent motive to avoid loss. Some firms in the competitive industries are always striving for greater production, and the efforts which they must put forth to market more goods force them and their competitors in turn to reduce cost by improving the techniques of production.

The managerial point of view is very different when the firm controls a large part of the industry, say 40%. A change of 10% or more in its production would increase or reduce the total supply of goods coming into the market in such significant degree that the market price would be affected. The firm may not be a monopoly by any standard of law, but the manager must make his decisions about production schedules upon considerations quite similar to those which influence the monopolist. If the current market price yields a highly satisfactory profit, he is not inspired to expand his operations forthwith; he carefully avoids action which might spoil the market and leave him with a smaller total profit on a larger volume of business. If market demand falls, he has a choice different from the one which the small firm in a truly competitive industry must make. Instead of reducing prices in order to mitigate the drop in production and employment, he may try to sustain the market price by reducing his volume of output.

There are few industries in this country where a single corporation controls as much as 40% of the business. But where three or four firms control more than two-thirds of the industry, much the same policy prevails. Each manager of a major firm knows that each of the others is similarly concerned to maintain a satisfactory market price and will rate his production to that end. The industry has an historical pattern of the share of the business to be enjoyed by each of the leaders, and each manager keeps within that pattern while adjusting his production to changes in demand. Each is confident that the one thing his nominal competitor will not do is to cut price in order to maintain production and sales.

The administered-price industry, as it is called, is not a new phenomenon. While there was no name for it at the time, President Theodore Roosevelt recognized it in 1908 and demanded legislation to abandon the effort to apply the Sherman Act to big business units and to substitute a policy of government control. In his campaign as the candidate of the Progressive Party in 1912, he endeavored to make this a principal issue; but he was unable to arouse any great interest in the subject among the people who preferred to follow Woodrow Wilson in upholding the Sherman Act. Little attention was given to the defeated Roosevelt's program in the succeeding Congress, which added the Federal Trade Commission Act and the Clayton Act to the antitrust laws.

The problem created by the administered-price industries did not receive congressional attention until the Temporary National Economic Committee was directed to study the concentration of economic power 10 years ago. The Committee struggled with a complex situation, but its report proposed no specific plan to meet it. Since then several congressional committees have labored without producing any program of legislation.

The three most important respects in which the policies of an administered-price industry depart from the policies of a competitive industry relate to the expansion of production and plant capacity, to the volume of employment, and to price levels. These departures have not yet been striking since World War II. With a strong inflationary situation, which has made the problem of securing materials and labor for full-scale operations more acute than the problems of capacity or price policy, there have been only a few incidents where administered-price industries have exhibited a disposition to go slow on plant expansion and to reduce the volume of production. In fact, some of these industries have maintained some prices so far below those which would normally prevail in a competitive market that it has been possible for irregular gray markets to flourish with prices far above the official schedules.

It is rather in periods of business recession, the economist believes, that the production, employment, and price policies of administered - price industries may endanger the public welfare. It has been more than 10 years since we have had a chance to test this conclusion. But there is little reason to doubt that prices will be more stable in such businesses, and it is probable that production and employment will drop more rapidly than in competitive areas, although this is sharply disputed. However, complications arise in final evaluation because we really do not know how much these areas of relative stability may aid the economy in the struggle to halt deflation. The economic analysis which indicates that the course of deflation is accelerated by the spiraling effect of successive failures also indicates that those economic groups which remain solvent must exercise some general stabilizing influence.

The extensive consideration which has been given by official commissions and by congressional committees to the problems resulting from the increasing size of business units has not yet led to any clear judgment about the proper national policy. It is the opinion of many students of the subject that the advantages of increasing size are all realized when a firm reaches a stature much less imposing than that of our larger corporations, and that there is no reason to permit unlimited growth in order to secure all of the benefits of technological progress. But there is no agreement upon any plan to break up existing industrial giants or to erect positive limits to the expansion of others.

On the other hand, few economists and few legislators are willing to abandon the effort to make our economy truly competitive. They do not accept the view of Theodore Roosevelt that our business institutions are those of big business and that they cannot be forced into the policy of the Sherman Act. Study of the problem must continue, toward the end of creating competitive conditions throughout industry and thereby removing the need for those positive controls which alone could protect the public if it cannot be protected by restored competition.

As we give further thought to

the subject, the business world itself has the opportunity to influence the final decision. Restraint in price policy, courage in expanding facilities to meet the expanding needs of the people, and the display of social responsibility in supporting programs of stabilization in the interest of maximum production and employment, will go far toward adjusting the relations of business and government. This may offer a better solution of the administered-price problem than can be found in legislation. The work under the Employment Act can make its greatest contribution toward this end, not necessarily by the institution of forceable policies, but rather by developing those analyses of how the economy as a whole functions which will further enlist the support of all in its smoother operation.

The increasing concentration of industry in large corporations is responsible for the "small business problem." It exists only because there is also big business. If our economic machine comprised only the 3.3 million small concerns, their problem would be that of general economic stability; there would be no distinct problem of small business. The small business problem exists because the small firm is at a disadvantage in competition with industrial giants, and this is implicitly recognized in the character of proposed measures of assistance. They are largely designed to afford the small businessman some special compensating advantage in the competitive struggle. Those most frequently cited are preferential treatment in the granting of government contracts, exemption from the antitrust laws, abatement of taxes, and priority in the allocation of raw materials.

The circumstances of the small enterprise become formidable when it must compete with large corporations having operations so extensive that the processes of mass production can be installed and the cost of expert management, of research, and of advertising and sales promotion can be spread over many units of production and sales.

Lack of capital is not a characteristic inherent in the small firm. This is proved by the hundreds of thousands of small businesses which are backed by more capital than they require. And no amount of capital would enable the small manufacturer to install mass-production methods; he would have to become a big manufacturer to do so. The tiny enterprise could, of course, employ expensive management and research technicians and engage in nation-wide advertising if it had the money. But it would also have to become a big enterprise to succeed; for the cost of this policy, when spread over a small volume of production or sales, would establish a unit cost barring goods from the competitive market. The disadvantage of lack of capital is reflected in minor degree in inability to take advantage of trade discounts upon large purchases of materials and of cash discounts for prompt payment, and more importantly in attempting to survive periods of misfortune.

The very large corps of successful small firms suggests that their competitive disadvantages have been somewhat exaggerated. Many of them prosper, it is true, because they live as satellites of the corporations which dominate their industry much like feudal lords. But more of them have proved that their counteradvantages of personal management and of elasticity in operations permit their survival in the competitive struggle. The case cannot, however, be left at this point. Year by year, the control of the market is passing more largely into the hands of the large corporations, not only by internal growth but by the absorption of smaller firms. The process of expansion of large corporations by swallowing the smaller continues, and the concentration of economic power becomes more intense.

A recent study summarizes the social interest in small business in these words:

"With more than 3 million centers of business initiative, the realm of small business offers a moving panorama of self-employment and responsibility for the employment of others, of competition for the patronage of customers, of new ideas and trials and errors that taken together make for a dynamic society and ensure the American economy against sterility."

These are the reasons the Council of Economic Advisers must be concerned with the fate of small business when it considers its responsibility under the Employment Act of 1946 "to develop and recommend to the President economic policies to foster and promote free competitive enterprise." The very existence of the problem of the administered-price industries warns that the competition offered by the myriad of small business units must not be lost but instead must be strengthened and expanded. A good in itself, this will also reinforce such salutary policies as the larger firms may themselves adopt.

Determining the Labor Contract

One limitation upon the character of policies proposed by the Council, clearly imposed by the Employment Act, is that the fixing of the terms of the labor contract shall in general be left to the voluntary action of management and labor. In the light of our legislative and industrial history, the phrase "free competitive enterprise" cannot be interpreted otherwise. Except in a national emergency, it is settled national policy that employers and adult workers shall be permitted to make their own agreements about wages and other features of the labor contract, aside from legislation directed against substandard wages and working conditions.

This national policy compels the economist to attempt to discern business trends when employment, the most important single factor, is subject to specific individual decisions. Our modern economy is dependent upon the making of labor contracts. If they are not made, there is no employment, and activity is crippled at vital points. The terms of labor agreements also determine whether the distribution of income affords inducement and opportunity for business to expand, and permits workers as consumers to play their important role in the market for goods.

Individual vagaries distort the working out of all economic theories, but for most purposes these may be overlooked because they are merged in the decisions of the mass of people. Collective bargaining in large-scale industry elevates the sentiments of individuals into a position of potent influence upon economic activity and business conditions. The corporate manager and the labor leader make choices which permit the economy to continue to flourish or which accelerate its decline.

The strategy on each side has been comparable. Each has wished to use all of its economic power to secure the best possible terms. Freely to use that power, each has opposed any move by government to join in the making of the labor contract or to fix it when negotiations break down. The ultimate economic power of labor rests in the strike. That of management springs from its legal control of operations and its right to sit tight upon its wage offer. Each has felt that its weapon must be bright and sharp or it will lose its effectiveness.

Labor believes that it must not permit management to suspect that the workers are desirous at all costs of avoiding a strike, because then labor would be crowded into a corner at the collective bargaining table. An occasional strike, with whatever suffering it entails, and over a final difference which of itself may not be large, is the price labor must pay in order to maintain the force of its only economic weapon. The same concept is responsible for the occasional decision of management to forfeit profits and thrust upon its stockholders heavy losses which could be avoided by an additional concession involving only a tiny fraction of the cost the strike will impose. The principle apparently is that management must remain firm to maintain its long-run position.

Our evolving national labor policy has expedited the organization of labor, and brought "equality of bargaining power" closer than a decade ago. The result has been the multiplication of the instances of specific controversy between labor and management. What was once an occasional major battle has become a running skirmish which now and then develops an emphatic issue and a spirited contest. All of the old issues, except the right to organize and the 40-hour week, remain and furnish the cause of disputes or crises in industrial relations. To these has been added a long list of minor controversies about seniority, supervision, vacations, retirement plans, waiting time, and the interpretation of formal contracts. All this may be desirable in the interest of greater social justice and even general economic progress or long-run stability; yet it increases the number of points of dispute.

Labor and management have both been firm in their opposition to any plan to have the terms of the labor contract fixed by some official authority when the collective bargaining process has collapsed. Even the more moderate leaders on both sides, who are neither arrogant nor stubborn and who feel keenly the burden of responsibility which they carry, are distrustful of any policy which would substitute official compulsion for their voluntary decision. In their meetings with the Council, they have shown their deep concern over the economic breakdown caused by major strikes in critical industries. But they turn away from every proposal of direct action by government which might finally determine the labor contract.

Meanwhile, disputes generally affecting the economy remain a perennial threat to the attainment of economic stabilization and maximum production which is the objective of the Employment Act. President Truman, in his State of the Union Mesage on Jan. 6, 1947, proposed the appointment of a joint commission to study and make recommendations on "the special and unique problem of Nation-wide strikes in vital industries affecting the public interest." He describes the problem in these earnest words:

"The Commission should be charged with investigating and making recommendations upon certain major subjects, among others:

"First, the special and unique problem of Nation-wide strikes in vital industries affecting the public interest. In particular the Commission should examine into the question of how to settle or prevent such strikes without endangering our general democratic freedoms.

"Upon a proper solution of this problem may depend the whole industrial future of the United States. The paralyzing effects of a nation-wide strike in such industries as transportation, coal, oil, steel, or communications can result in national disaster. We have been able to avoid such disaster, in recent years, only by the use of extraordinary war powers. All those powers will soon be gone. In their place there must be created an adequate system and effective machinery in these vital fields. This problem will require careful study and a bold approach, but an approach consistent with the preservation of the rights of our people. The need is pressing. The Commission should give this its earliest attention.

"Second, the best methods and procedures for carrying out the collective-bargaining process. This should include the responsibilities of labor and management to negotiate freely and fairly with each other, and to refrain from strikes or lock-outs until all possibilities of negotiation have been exhausted.

"Third, the underlying causes of labor-management disputes."

The one point upon which most labor and businessmen were in agreement, in the ensuing congressional battle over labor legislation, was their opposition to any decisive intervention by the Government in a dispute over the terms of the labor contract. Despite many other important differences, both the National Labor Relations Act of 1935 (the Wagner Act) and the Labor Management Relations Act of 1947 (the Taft-Hartley Act) contemplated broadly that these terms be settled by voluntary action. The latter statute authorizes the President to secure judicial injunctions to delay work stoppages of critical national importance, but after 80 days both management and labor are free to choose their own course.

There is no strictly logical answer to the proposition that the concept of a public interest superior to any group interest, which has found its way into so many other fields, will ultimately impose upon the Government the responsibility for settling labor disputes if they reach a stage where the national interest will not permit their continuance. And many prudent men would deem it better to establish a pattern for such settlements before some crisis arises which might in a moment of clamor develop a pattern inimical to one or both of the parties. But while this proposition is clear, its application is extremely difficult. In the final analysis, men cannot be compelled to work in a free society, and even where the effort has been made in societies that are not free the results have been poor. Besides, settlement by government does not avoid but rather intensifies the need for adequate standards as to what precise decisions will be fair to both parties, acceptable to the public, and consistent with the needs of the whole economy. These standards include a wage structure in relation to prices that will maintain the producing power of industry and the buying power of labor in sound proportion. In the absence of such standards, no forced settlement could be desirable and therefore could not last. If such standards can be developed and win adherents, the prospects for voluntary settlements will become so bright that the need for compulsion would be rare indeed.

This suggests that, while continued attention should be shown to the legal status of employers and workers in their relations to one another and to methods of dealing with serious and extensive break-downs in their negotiations, increasing thought should be focused upon the form of the labor contract as determined through the collective-bargaining process. In fact, except in time of war, the occasional break-down of negotiations may do less long-run damage to the economy than is done by the conclusion of many negotiations on terms which do not reflect the economic requirements for sustained general prosperity but reflect only the relative strength of the parties. Hundreds of contracts are signed for every one that cannot be signed; and the cumulative effect of working arrangements is of larger significance for the economy than the cumulative effect of work stoppages. Recognition of this would reduce the number of work stoppages by introducing broader perspective into wage negotiations.

To foster these broader perspectives, it is not enough to ask in a vague and generalized way that management and labor each consider the national interest and the requirements for a prosperous economy. For each party tends to think that its own interest is the national interest, and each tends to believe that a counsel of moderation is needed only by the other side.

While there is no gainsaying the fact that "far-sightedness" and "moderation" on the part of both management and labor are necessary, this can be furthered only by developing some standards shedding light upon what wage or other provisions will in fact be advantageous to both in the long run. Without this, there is little point in asking moderation of workers who have a strategic position which enables them to obtain more, or of an employer who is in such a strong position that he can compel settlement upon terms less favorable to workers.

The value of collective bargaining as the machinery to maintain labor peace and economic stability would be enhanced in considerable degree if it were possible to propose a standard of a fair wage —related to a given price structure—which would be at all acceptable. Neither party to collective bargaining would be so resolute and dogmatic if its proposal had to be discussed in its relation to a generally approved standard, even if that standard were so general that it could not be used as a precise rule for any particular case.

The proposal so often made, that there be established a process which will lead to an adjudication of the fair wage by some kind of tribunal, is based on the assumption that the determination of a fair wage or proper wage can be reached by the judicial process. The courts never hesitate to determine the countless questions of fair value, reasonable cost, fair prices, and the like which come before them, it is said, and the same method could be used to determine fair or proper wages. The analogy is appropriate where the controversy is over the amount due an individual for services he has already performed without a clear agreement fixing his wages. But it has no usefulness in a controversy over a labor contract fixing future wage rates. In the former case, the court applies a definite legal standard, which is the going rate, or the customary rate of wages in similar employment. However, when a round of new labor contracts is being negotiated, the very purpose is to abandon the going rate of wages and to establish a different one; or to substitute new contract terms for the old in respect to hours of labor, vacations, retirement funds, union shop arrangements, and other non-wage features of the labor contract. The current practice is relevant only as the starting point from which the parties depart in reaching a new agreement. If it were used as the standard by which the parties or some tribunal are to determine the new wage rate, there would never be any changes and labor would be helpless in its effort to improve and not merely to stabilize its standard of living.

In groping for some more promising solution, the suggestion is often made that the President call a conference of representatives of management and labor, and perhaps of the public, similar to that which he summoned in the autumn of 1945. There were high hopes for that conference, and it took place under conditions far more favorable to its success than those which normally prevail. There was little disturbance in

(Continued on page 30)

Truman's Advisors Discuss Economy

(Continued from page 29)

labor relations. Prices were stable. Industrial managers were looking forward to great and profitable markets which would absorb their total possible production, and were eager to prepare the foundation for peaceful labor relations which would protect them against interruptions in their profitable operations. Labor was enjoying a standard of living which was far above any in its experience, but was disturbed by the knowledge that many adjustments would have to be made in the reconversion process and was searching for the highest possible degree of security. On each side, there was a disposition to enter upon negotiations upon the assumption that in the postwar world the relations of labor and management would be marked by the cooperation of the war period, not by the mutual distrust of old. But even under these favorable conditions, the conference had few results. After weeks of earnest effort, the participants were unable to convert into specific agreements and understandings the promptings of of good-will which had brought them together.

If an attempt is made to make further progress toward the goal of better economic adjustments by organizing a labor-management conference rather than by establishing such a commission as the President proposed in his State of the Union message in January, 1947, preparatory work would be as necessary as in the case of international conferences. The area within which there is some real chance of agreement should be ascertained by extensive preliminary inquiry, and an agenda should be prepared and agreed upon through which fruitful subjects might be carried to a conclusion and the conference not led into disagreements upon points not yet within the area of possible agreement.

Such an agenda should not concentrate upon those legislative efforts through which management or labor has in the past endeavored to obtain some advantage over the other. Nor should it endeavor to arrive at specific wage or price agreements. It should concentrate upon those discerning analyses of conditions throughout the economy, both immediate and long-range, from which might be deduced some standards that management and labor could later apply in the course of their negotiations. These standards would not be binding; they would be primarily informational in character. But from them might emerge, after a testing period of time and experience, a better reasoned and therefore more workable formulation of wage policies to be applied through collective bargaining. Agricultural representatives should also participate in any such conference, because industrial wage and price policies cannot be disassociated from the problem of agriculture's share in the output of the whole economy. Basic economic studies that would be relevant to such an endeavor have been undertaken by the Council of Economic Advisers, in cooperation with many groups and individuals, and they are referred to in Part I of this report.

Above all these specifics, management and labor must have ever-increasing confidence, based upon deeds rather than promises, that the government is fulfilling its commitment under the Employment Act to use all its resources to help maintain an economy of maximum employment, production and purchasing power. The haunting fear of another depression must be removed. So long as it overhangs, no group can be expected to surrender its immediate prospects of gain in favor of a future that is too hazy and threatening to be relied upon.

The State of Trade and Industry

(Continued from page 5)

pessimistic on the outlook for 1949, according to "The Iron Age," national metalworking weekly. But, adds the trade magazine, their pessimism is relative. It may be the inventory season. Or the soft spots in some consumer lines using steel.

There is no reason to expect a sudden drop in steel output, nor is there any real basis for being pessimistic about the immediate or the short-term future of the steel industry.

In view of the noticeable uncertainly in business circles, says "Steel" magazine in a current editorial, it is not surprising that steel sellers are taking the precaution to check up on the position of their customers. Sales offices are being asked to check on developments at metalworking plants, not only with respect to current operations but to end-use demand as well, with a view to determining to what extent, if any, the slight easing in pressure may be due to year-end influences. One conclusion drawn so far is that metalworking plants, being more inventory conscious, may be out of operation over the holidays for a longer period than in recent years to permit a thorough check on stocks.

Just as steel people look for less pressure from steel users by next year, the price outlook for some raw materials used in steel making is brighter, "The Iron Age" continues. This week there have been no major changes in scrap prices. But that does not mean there won't be some soon. Quality of scrap has been much better in recent weeks. This means that scrap is cheaper because better quality has meant more tons of steel per ton of scrap.

Another item—labor shortages—which had been worrying steel people in the Midwest, is no longer an acute problem. Some companies which had trouble filling vacant jobs find plenty of new faces asking for employment.

The iron ore puzzle in the United States is falling into place. The biggest chunk to fit into the future pattern is the U. S. Steel Corp.'s big discovery in Eastern Venezuela. That firm has been exploring in that locality for the past several years. It has found a reserve to take care of supplemental ore needs in years to come. The ore discovered is high grade hematite running from 62 to 69% iron content. Not only is the quality excellent but the amount already proven by U. S. Steel is vast—running into several hundred million tons of high grade ore, concludes "The Iron Age."

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 97.3% of capacity for the week beginning Dec. 27, 1948, as against 88.6% in the preceding week, representing an increase of 8.7 points, or 9.8%. A month ago the indicated rate was 100.1%.

Curtailments New Year's Day this week will be negligible, according to the Institute.

This week's operating rate is equivalent to 1,735,800 tons of steel ingots and castings compared to 1,597,000 tons a week ago, 1,804,300 tons a month ago and 1,686,900 tons, or 96.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT TAPERS OFF IN WEEK ENDED DEC. 25

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 16 was estimated (subject to revision) at 5,550,000,000 kwh., according to the Edison Electric Institute. This was a decrease of 240,191,000 kwh. below output in the preceding week and 720,421,000 kwh. or 14.9% higher than the figure reported for the week ended Dec. 27, 1947. It was also 107,557,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS EXTEND DECLINES, DROPPING 9.3% UNDER 1947 WEEK

Loadings of revenue freight for the week ended Dec. 18, 1948, totaled 754,545 cars, according to the Association of American Railroads. This was a decrease of 28,731 cars, or 3.7% below the preceding week this year. It also represented a decrease of 77,585 cars, or 9.3% under the corresponding week in 1947 and 81,640 cars, or 9.8% below the similar period in 1946.

AUTO OUTPUT AFFECTED BY PRE-CHRISTMAS CLOSINGS AND CURTAILED WORKING HOURS

Production of cars and trucks in the United States and Canada dropped to 98,069 units from 123,315 (revised) units the previous week, according to "Ward's Automotive Reports."

The week's decline in output was attributed to the pre-Christmas closings or shortened working hours Christmas Eve.

Output in the similar period a year ago was 75,638 units and in the like week of 1941, 24,620 units.

This week's output consisted of 72,796 cars and 20,343 trucks built in the United States and 3,190 cars and 1,740 trucks in Canada.

BUSINESS FAILURES UP SHARPLY FOR WEEK

Commercial and industrial failures rose sharply to 116 in the week ended Dec. 23 from 96 in the previous week, Dun & Bradstreet, Inc., reports. Casualties were more numerous than in the comparable weeks of 1947 and 1946 when 38 failures occurred, but were well below the 190 in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more rose to 104 from the preceding week's 77 and were considerably above the 34 reported a year ago, while small failures with liabilities under $5,000 dropped to 12 compared with 19 last week. However, they were three times last year's number.

FOOD INDEX MOVES UP FOR FIRST RISE IN FOUR WEEKS

A steadying movement in wholesale food markets last week saw advances in individual commodities outnumbering declines by more than two to one. The Dun & Bradstreet wholesale food price index rose slightly for the first time in four weeks to stand at $6.23 on Dec. 21, from the year's low of $6.21 recorded a week ago. The current figure contrasts with $7.11 for the corresponding 1947 date, or a drop of 12.4%.

COMMODITY PRICE INDEX CONFINED TO NARROW RANGE IN LATEST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., held in a narrow range throughout the past week. It closed at 268.61 on Dec 21, compared with 268.20 a week previous. On the corresponding date a year ago it stood at 302.30.

Grain markets were irregular with trading on the Chicago Board of Trade showing a moderate increase for the week.

Cash wheat was inactive and prices averaged lower. Corn ranged somewhat higher due to lighter receipts from the country and good demand for the cash grain. The cash oats was more active with prices steady to firmer, while domestic flour business showed some pick-up early in the period.

There was some pick-up in buying by chain bakers but trading continued to be featured by buyer resistance with most users still hesitant to anticipate forward requirements. The export flour market was dull except for buying by Italian interests against a supplemental final quarter allocation.

The butter market was irregular with prices moving higher following release of the Dec. 1 report showing a substantial reduction in storage holdings of dairy products.

Reflecting slow trade and a continued downtrend in wholesale pork markets, prices for heavyweight hogs declined 50 to 75 cents a hundred pounds last week. There was scattered liquidation in lard and prices were somewhat easier in sympathy with weakness in vegetable oils.

The make of lard is currently heavy with stocks mounting and distribution reported slow. In the early part of the week cattle prices weakened under liberal receipts. Some recovery occurred in late trading but further declines in wholesale beef prices continued to exert a bearish influence on the cattle market. Sheep and lamb prices trended lower in the week.

Although price changes were small, there was a slightly easier trend in spot cotton markets this week.

Trading was less active and volume of sales in the ten spot markets fell to 235 000 bales in the latest week, compared with 280,600 bales the previous week and 183,700 in the same week a year ago. Inquiries were quite numerous but demand was lagging, reflecting uncertainties over Congressional action on farm legislation and the possibility that cotton exports may fall below earlier expectations.

Entries of cotton into the 1948 loan stock, as reported by the CCC, declined for the third week in succession.

Entries for the week of Dec. 9 were 206,684 bales, the smallest weekly volume since the last week of September.

RETAIL AND WHOLESALE TRADE SHOWS FAVORABLE COMPARISON WITH YEAR AGO

As Christmas shopping continued to rise the past week, retail dollar volume moderately exceeded that of the previous week and slightly surpassed that of the comparable week in 1947, according to Dun & Bradstreet, Inc., in its current survey of trade. Many Christmas shoppers sought gift items of a practical nature and shunned luxury goods. Special sales and promotions were prevalent in many sections.

There was a moderate increase in retail apparel volume last week. Cold and inclement weather in many areas resulted in an increase in the purchasing of heavy clothing.

As many consumers were busy with gift shopping, retail food volume dipped fractionally in the week. Housewives purchased less meat than in the previous week with meat and butter substitutes sold in a large volume. The demand for fresh fruits and vegetables dropped slightly, while consumer interest in baked goods rose fractionally.

Holiday speciality food items sold in a large volume, but not to the same extent as in the similar week last year.

Shoppers continued to display a keen interest in toys. Increases in the sales volume of most toys were reported with the largest rise in the demand for mechanical toys. Occasional furniture was purchased in an increased volume. Consumer interest in many household goods rose moderately. Small electrical appliances suitable as gifts increased in sales volume. The limited demand for large appliances continued.

Retail volume for the country in the period ended on Wednesday was estimated to be from 1 to 5% above that of a year ago.

Regional estimates varied from the corresponding 1947 levels by the following percentages: New England down 2 to up 2, East up 2 to up 6, South unchanged to up 4, Midwest and Southwest up 1 to up 5, Northwest up 1 to up 4 and Pacific Coast up 2 to up 5.

A sharp drop in the reorder volume of seasonal goods resulted in a moderate decline in over-all wholesale volume the past week. The number of buyers attending many principal markets fell appreciably although it remained slightly above that of a year ago. Total order volume compared favorably with the level of the corresponding week a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 18, 1948, showed no change from the like period of last year. This compared with a decrease of 1% recorded in the preceding week. For the four weeks ended Dec. 18, 1948, sales decreased by 3% and for the year to date increased by 5%.

Retail trade in New York last week was greater than that for the corresponding period a year ago. Department store sales for the week were estimated at more than 50% ahead of last year. However, a principal reason for the substantial gains was attributed to the fact that there were five selling days in the week against three last year.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 18, 1948, declined by 3% from the same period last year. In the preceding week a decline of 6% was registered over the similar week of 1947. For the four weeks ended Dec. 18, 1948, a drop of 5% was recorded over that of last year and for the year to date volume increased by 3%.

Public Utility Stocks on Bargain Counter

(Continued from first page)

pany yielding as much as 5% thought he had a veritable nugget of gold. That was because yields were more generally in the vicinity of 4% to 4½% and price-earnings ratios of as much as 15 to 20 times were quite common. At the moment, yields are averaging in the general area around 6% for stocks which are generally recognized as entirely suitable for purchase by institutions, and returns of 7%, 8% and even more are available from stocks which are less well-known, less seasoned, or issued by companies which either are located "off the beaten path" or which do not have financial ratios requisite to give their shares investment quality. Price-earnings ratios of 10 times or less seem to predominate, with the ratio for some stocks falling as low as seven or eight times.

It is always hard to tell when the pendulum has swung to an extreme and is ready to start to swing back. Mass psychology unquestionably plays an important part. However, if there can be found no tenable reason for undue misgivings, then the investor can afford to make commitments on the attractive yield bases prevailing and wait for the inevitable return to happier days.

Public Utilities and the Election

Searching for a clue as to the cause for the present depressed prices, one of the contributing factors we find first is disappointment as to the outcome of the recent national election and fears that it betokens trouble ahead for the utilities. Before Nov. 2, this writer had many inquiries as to what might be expected in the way of favorable developments in the utility field to follow the anticipated Republican victory. It was hard to muster any reasons as to why the utilities might be particularly favorably affected. Certainly there would have been no wholesale changes in basic legislation and, as a practical matter, few intelligent observers want even to contemplate a return to anything resembling the laissez-faire conditions of days gone by. By the same token, if a Republican victory could not have been visualized as presenting the occasion to sing "Happy Days Are Here Again" so it is hard to see where a Democratic victory is the basis for wailing and gnashing of the teeth.

After all, the utility companies have come through 16 years of a Democratic regime in finer and stronger shape, by far, than they entered it. There is no gainsaying that at many times the utilities have been on the defensive and often the rules of the game have seemed to be written to their disadvantage. But there seems to be little reason to think that anything ahead will be worse than what the industry has already survived successfully, if not comfortably.

One of the overhanging clouds resulting from the election is fear of higher corporate taxation and the fears are probably well founded. However, it is hard to see why there is any feeling that this is especially damaging as far as the utilities are concerned as against other forms of corporate enterprise. In many respects higher taxes would find all the corporations in the same boat. There is an important difference as far as utilities are concerned, however, and surprisingly enough it has been overlooked by some commentators. For the utilities, taxes are an allowable deduction in arriving at the return which may be earned on an established rate base. Accordingly, if taxes rise to a point where net income is sufficiently impaired to warrant the move, utilities may make application to regulatory bodies for rate increases.

It would seem, therefore, that utility enterprises are more sheltered in respect to possible impact of higher Federal taxes than are many of the companies engaged in competitive enterprises where there are not similar avenues open for relief. Even the enactment of an excess profits tax would not seem to have serious implications for the utility companies whose profits are always held within bounds by regulation, as contrasted with many industrial companies which have taken full advantage of their prerogatives to charge "all the traffic will bear."

Fears of Public Ownership

Passing to another cause for uneasiness growing out of the recent election, we find fears of a marked trend to public ownership of utility properties. Very often these fears are expressed in vague and general terms. Certainly there seems to be nothing on the horizon even to suggest socialization of the industry. Many — probably most — of the utility companies of the country will go on their way with no more uneasiness about public ownership than in days gone by.

Admittedly, there are spots where public power will gain ground. The Pacific Northwest is one of these. In this area the Federal Government has already assumed responsibility for power generation and it has become difficult for some of the private companies to contemplate financing and developing power sources of their own. It is worth noting in passing, however, that awards made for properties taken over by public utility districts in Washington, for example, have generally not been unfavorable to the owners of the properties and the same situation prevailed in Nebraska, a state which is now entirely in public ownership hands so far as electric service is concerned.

The next Congress will probably have proposals for other river developments along the line of the Tennessee Valley Authority. By this time it has become pretty well established that "All is not gold that glitters," as far as TVA is concerned, and Congress is likely to be slow to repeat the experiment without taking full cognizance of the weaknesses which are attached to the present setup.

Reclamation projects involving power generation will probably be proposed in increased numbers. In many instances amicable arrangements have been worked out for private companies to distribute power generated by reclamation developments. In some situations the governmental authorities have had grandiose ideas as to competing transmission and distribution systems, and vigilance is necessary as to these projects. Some of the utility companies which are potentially most vulnerable in this respect are also the most alert to the needs for presenting their cases in opposition to these developments.

There is little reason to expect any new wave of agitation for municipal ownership. In the 1930s encouragement and financial assistance for cities to buy their power plants came from the Federal Government as a part of their "make-work" programs. Another impetus came while the wartime excess profits tax was in effect. Many municipalities saw the chance to retain within their confines the large sums which were flowing into Federal coffers. Neither of the situations described promises to be recurring under present conditions.

Incidentally, a little education might help convince the average citizen that public ownership is not a panacea for all of the problems of the public utilities. One of the best pieces of supporting evidence for this statement is the present situation in the Province of Ontario where there is public ownership of power facilities. A serious power shortage has developed. In Toronto, where public ownership is compounded by municipal facilities for distributing power bought from the Ontario Hydro-Electric Commission switches have had to be pulled at various intervals during the day to keep consumption in line with supply. The "Financial Post" of Toronto commented on one occasion as follows: "In the Hydro mess, Canada has a demonstration of what Socialists offer on a scale multiplied many times." It further stated that "The bigger an enterprise becomes (and Ontario Hydro is now one of the largest corporations of its kind in the world), the more vulnerable it is to the inherent weaknesses of the Socialist state." Such remarks seem something less than a glowing testimonial for the virtues of public ownership.

The Question of Adequate Rates

One of the most important problems which many utility companies have ahead of them is that of getting adequate rates for the service which they render. This is not a Federal matter but one which is usually in the hands of the states in which the companies operate. In some cases, rates are negotiated with the municipalities but in the majority of states, however, regulation of utility rates is a function of a state commission. It is reassuring to note that these commissions appear to be increasingly sensitive to and sympathetic with the needs of utility companies for rates which will permit earning a fair return.

Even some state commissions which have had the reputation of being strict have made some very fair awards. To cite just one example, the Wisconsin Commission gave a rate increase a few weeks ago to the Northern States Power Co. (Wisconsin) and in its findings allowed the company a 6.3% return on a rate base which was an estimate of the average investment in plant and property—not for the present year but for 1949.

There is a growing realization among regulatory offices that if utilities are to consummate successfully the financing necessary for the huge construction program ahead they must have adequate earnings. Commissioner McEntire of the SEC in a recent speech before the annual convention of the National Association of Railroad and Utilities Commissioners said: "The industry's construction program can be financed successfully, of course, only if utility common stocks retain their 'investor appeal.' To do this, earnings and dividends must be attractive. . . . Many commissions have already been faced with instances where earnings have become inadequate and relief has been granted to quite a few companies."

The Commissioner in his speech went on to refer to the necessity of generous dividend policies to get full market benefit from good earnings. There is evidence that directors of public utility companies are increasingly conscious of the fact that utility stock prices are geared more closely to dividends than to earnings and are giving consideration to distribution of a fair proportion of total earnings. There have been numerous increases in utility common stock dividends in recent months and more seem to be in prospect. On the other hand, the few cuts in dividends which have been reported have usually been tied in closely with problems of the individual companies involved—local droughts, litigation or something of the sort—rather than any broad underlying problems of the industry.

Already the industry is reaping fruits of the program of installing a large amount of new and efficient equipment and more is on the way. In a recent study Ebasco Services, Inc. emphasized that increasing pay-roll costs have been offset in part by more efficient utilization of manpower and technological progress of the industry. It noted that in 1927 the electric industry had 235,000 employees to service 19.7 million customers; in 1947 only 262,000 employees were needed for 31.7 million customers.

As to fuel consumption it was pointed out that new plants being installed have fuel consumption of only about 11,000 or 11,500 Btu per kwh. as against an industry average of around 17,000 Btu per kwh. in 1947. The study estimated that fuel economies at present price levels would save the industry approximately $165 million in 1951.

It is reassuring that there begin to be signs of relief as to the level of utility operating costs. Many companies are reporting that coal is being offered to them at some concession from prices recently prevailing. Some companies say they can get a more favorable price by signing a contract for a period ahead, suggesting that the coal operators are looking for lower prices. Even when prices have not been shaded, companies have been getting the benefit of a better quality of coal which, after all, means more money in the pockets of the utilities. No relief is expected as to wage rates but there are indications that greater efficiency may be expected from labor if the trend toward some modest recessions in industrial activity continue.

Probable Effect of Business Slump

It might be interpolated here that the utility companies are not altogether fearful about the effects of some cutback in general business. This is because the utility companies are still battling a shortage of capacity. To carry their loads many companies are having to use generally facilities which are not efficient and which normally would be used for peak or standby purposes only. Accordingly, some companies find that revenues on their least remunerative industrial business are little, if any, in excess of production costs in their least efficient plants. It looks as if 1949 might show some progress in catching up on needed new capacity but the end of 1948 is showing the industries in a tighter spot than it was a year ago although many individual companies are in better shape.

Because of the extraordinarily high demands for new capacity the raising of new capital has become a major project. Bonds are readily salable with no indication of slackening in demand, as the big customers for these are life insurance companies, pension funds, and other institutions, many of whom have a flow of funds coming in constantly which must be put to work. Equity financing is giving more concern. Preferred stocks are somewhat out of favor at the moment. Offerings of common stock which have been made to date have been generally successful. With intelligent cooperation from company managements in making their stocks appealing and in properly timing their offerings it would seem that the investment banking industry is well geared up to doing its part in finding the requisite funds.

Fears that a flood of new operating company stocks may be coming out of holding company break-ups to depress the market unduly seem to be exaggerated as the tempo of integration proceedings has definitely slowed. Many of the holding companies whose affairs are still to be unwound by the SEC have complicated problems often involving conflicts of interest of various groups of security holders. In such instances a great deal of negotiation and even litigation appear inevitable before any final plans can be consummated.

For anybody who, like the writer, believes in the inherent soundness and desirability of public utility securities, it would be a much more pleasant assignment to discuss the many points of positive appeal in these securities rather than to approach the problem by explaining away allegedly negative factors. It is recognized, however, that at the moment many people have questions in their minds about the outlook for the utility industry and it is hoped this article may help to answer some of them.

Incoming N. Y. Board of Trade Head Optimistic

American business should enter the coming year "with greater confidence than at any time in the past quarter of a century, perhaps even in the country's history," Mortimer E. Sprague, newly-elected President of the New York Board of Trade, declared following his recent elevation to that office.

Mr. Sprague, who is a Vice-President of The Home Insurance Company, told a meeting of the Board of Trade directors that most of the momentous problems facing us "fall in that category of how fast and how far we may progress rather than being a death struggle for mere existence."

"There have always been people who regard progress as unfamiliar and, therefore, potentially dangerous," he pointed out.

"In these interesting and perhaps precarious times of international chicanery and intrigue," he stated, "it is our transcendent duty to place the safety and future of the United States above all other considerations."

Mr. Sprague said he believed there will be some changes in the national labor relations policy which may be reflected in a new National Labor Act.

"We have confidence," he added, "to believe that labor, management and government will produce a law fair and equitable to all parties concerned, including the public, who always bear the brunt of labor strife."

Commenting further on national issues, Mr. Sprague said:

"All legitimate costs of government must be paid and our enormous public debt must be reduced, which is only another way of saying that we must be taxed. It is very gratifying to see President Truman's endorsement of Mr. Hoover's plan for reorganization of governmental agencies and we should hope for a substantial saving in the routine expense of our government.

"As society moves progressively onward, there will be questions of the advisability of extension of Social Security and old-age benefits. There will be internal problems of farm benefits, prices, housing, some tangible expression of our obligation to veterans and a long list of similar questions demanding answers.

"There must come a time when each faction in our country will cease to believe that its future lies only in the continuation of its vested interests. Never in the nation's history has there been presented a more latent opportunity to merge the forces of American labor and business with an enlightened government in moving ahead toward the goal of a greater America for all Americans. Business has its responsibility to do its share in this unified effort. We should move toward that goal with a feeling of confidence and enthusiasm."

Foreign Exchange Controls and International Investments

(Continued from page 9)

lush war days have become habits difficult to break — a downward readjustment in one's standard of living is always awkward. In most cases, however, be it in Europe or in this hemisphere, the underlying factor has been too much money and too much credit—unbalanced budgets and the manipulation of the currency in one form or another resulting in inflation in order to finance the planned economy or the higher level of imports or the luxuries of a standard of living which the country can no longer afford.

Now these things, particularly the last mentioned, are always embarrassing for any government to admit—look at what has been happening in France these last few months; if left alone they would soon produce their own correction because an inflation, unpalatable as it is, for that very reason sets new forces into motion because the higher costs, the higher prices, the weakened exchange rates eventually produce offsets in stimulated production, higher interest rates, larger exports and lower imports, the results of which also eventually restore faith in the currency, particularly if one is always permitted to move in and out freely—even though the rate fluctuates.

However, for political and other considerations a government is usually reluctant to give up its spending proclivities. Government employees feel they have a vested interest in their jobs and their level of pay, and often cannot be politically ignored with impunity. Hence, rather than abandoning the manipulation of the currency or in the more drastic case stopping the printing presses, the government resorts to controls—price controls including rationing, inventory controls including allocations and priorities, and foreign exchange controls including import and export licenses. By way of defense or at least explanation, let it be said that all these devices have become fashionable in the last decade or two, that they have been surrounded by a lot of elaborate abracadabra which is part of the phenomena of the planned economy, and that we in the United States are as much to blame as anyone else for we have furnished anything but the best example to follow;[1] however, we are gradually changing our point of view about these things—and it is one of the things I want to talk to you about for it should have a bearing on your own plans and your own thinking.

Various Types of Exchange Controls

So—let us consider the nature of the various types of exchange controls and their implications and consequences. The simplest form, of course, is merely to delay paying for the imports by subjecting these payments to what in effect is a license from the Central Bank or some control board—actually this amounts to making an involuntary loan from the foreign exporters in order to balance the international account; it is useful only if this extension of time is utilized to correct the factors which created the imbalance in the first place — if it doesn't it only aggravates the situation by adding a desire of foreigners as well as of the citizens of the country themselves to export capital at any opportunity. Another method is to freeze existing accounts and in effect bridge the gap by borrowing from them by denying them transfer and using the exchange to which they would be entitled—but leaving any new money coming into the country free to leave at will; this will work only once at best and has the same objections as the first, that is to say, the foreigner will try to avoid doing any more business at least for the moment and in the meantime will endeavor to withdraw any foreign exchange to which he may be entitled while the domestic businessman will also seek as a matter of self-protection to create some external reserves for himself, selling the domestic currency at a discount—if necessary and if feasible—all of which add, of course, to the demand for dollar or foreign exchange in terms of the domestic currency. As far as our business is concerned, international investments and security operations, be they in Europe or in this hemisphere, are always affected before anything else—first because such capital is by definition cautious and careful, and hence backs away almost instinctively from any such situation, and in so doing also adversely affects the foreign exchange supply and demand, whereas on the receiving end (again in the nature of things) there is the least compunction to discriminate against capital transactions and so they are always the first victims of any controls. A third method to make up the difference in an unbalanced foreign exchange account where there is an unwillingness to let the exchange rate itself seek its own level is to subject imports quantitatively to license; this leads to maladjustments in the flow and distribution of goods in the internal economy even when such licensing is administratively well handled while at the same time it doesn't contribute to restoring exchange stability; for some strange reason it seems easier to make additional mistakes and add new complications than to concede that a currency is overvalued and take steps to correct it.

One of the commonest excuses today for refusing to readjust an overvalued currency is the argument that the country is exporting everything it can export; this is no trick in a world which is not only clamoring for goods of all kinds to fill the vacuum caused by the war, but which would rather have goods than currency in most cases even if that were not so. It overlooks the fact that exports if made to soft currency countries are wholly or partly illusory, from the standpoint of a country's balance of payments, while imports continue to be unduly stimulated by the artificially high exchange rate—a situation which would not long continue if it were not for the continued inflow of foreign funds in one form or another—usually via government to make up the deficit; that is basically what we are doing in most of Europe under the Marshall Plan although the economics of the situation are, of course, overshadowed by humanitarianism as well as military considerations. Except for such aid, many of the European experiments in statism would have collapsed long ago.

Multiple Exchange Rates

Yet having gone this far it is but one step further to try at least to cut down the volume of imports engendered by an unduly high exchange rate by establishing a penalty rate for imports—that is to say, a rate different than that for the exports, and you have entered the baneful field of multiple exchange rates. Now one Dr. Hjalmar Schacht was the master technician in this field; the multiple exchange rate system for a long time and in effect served to dupe other countries into giving unwilling credits to the Nazis—it did, however, involve more and more control over everything as the difficulties increased—it led to hoarding on the part of the government and induced private people to do the same rather than get tied up in a type of blocked account out of which you couldn't exit without a permit which you wouldn't get. It exaggerated the inflationary pressures — it magnified the dislocations — but nominally it maintained prices and exchange rates. The semblance of undisturbed currency was maintained and its depreciation took the form of depriving the holder of the right to convert it into goods at will and making it depend on a license or a ration coupon which not only made it just as worthless as if the price had been allowed to go up, but in addition added to the economic complications. Before he got through, Schacht, I think, had 27 different types of blocked marks and a situation in the Nazi satellite countries where no one was willing to accept anyone else's currencies, while black markets flourished despite severe and even physical penalities. Foreign assets were, of course, expropriated very early in the game as one measure to make up the German foreign exchange deficit—that is to say, there was a forced conversion into marks, while the unlicensed transfer of capital out of Germany was made subject to capital punishment under Hitler. Today in Europe and most particularly in the Russian satellite countries, we are, except for the penalties, not far removed from this type of situation, which a Swiss economist has characterized as "repressed inflation."

One of our American economists, Henry Hazlitt, has recently described the effects of "repressed inflation" as follows:

"Every economic transaction becomes politicized. Even money no longer has any definite value except when combined with ration coupons or some discriminatory license. An open inflation, it is true, causes crying injustices and leads to unbalanced production. But a repressed inflation is even worse. It adds stagnation to unbalanced production and unjust distribution."

"Under repressed inflation the budget usually remains unbalanced. Low interest rates are arbitrarily maintained. These encourage excessive borrowing and further monetization of the public debt. To counter its own inflation the government is constantly compelled to increase its counter-pressure or repression."

"The whole system of compulsory values becomes constantly more fictitious. Unbalanced production, chaos, and stagnation assume more alarming proportions. The population reacts by mounting discontent, distrust, disobedience and bewilderment. The government is finally left with no choice but to admit its defeat or to resort to complete totalitarianism."

"The bureaucrats argue that they must keep their coercive controls until production has increased enough to relieve the pressure of inflation and to enable them to dismantle the control machinery. They think they can close the gap between money and goods by increased production. But they fail to recognize that it is exactly their repressive controls that are stifling production. They refuse either to mop up the previous surplus of money that has caused the inflation or to balance their budget and discontinue their cheap-money policies. So the gap between goods and money tends to become greater rather than less."

Lessons of Control Experience

Now what are the lessons to be drawn from all this? In the first place let us recognize foreign exchange controls for what they are—they are palliatives which do not provide the answer but aggravate the problem; just because an air of enlightened monetary management has been thrown around them doesn't make them solutions — the fact that almost everybody uses them is really no criterion, and we in the United States are as much to blame for this as anyone else for we are responsible for the key idea in the original Bretton Woods scheme, namely the notion that there is a peculiar virtue in exchange stability—in stability for stability's sake from which other benefits would follow, with the U. S. lending the money to make this possible. The thought was that if you could only get the exchanges to remain steady, the individual economies would also come to enjoy stability, overlooking the fact that very few governments, and most particularly those who were addicted to planning, would be willing to make the internal readjustments necessary to make this possible. As I already indicated, we in the United States are moving away from the original Bretton Woods concept—in fact this began before the first loan of the International Bank was floated and it is also manifest in the conditions which we are attaching or trying to attach to our Marshall Plan loans, in which respect American public opinion would no doubt go much further were it not for military and humanitarian considerations.

Controls Doomed to Failure

It represents a realization that efforts to insulate an economy against exchange fluctuations by the institution of controls is doomed to failure and that ECA loans to tide over an unbalanced payment position futile unless steps are taken internally to reverse the forces which are trying to express themselves in exchange depreciation. In fact, failure to do these things and at the same time tightening foreign exchange controls in an effort to maintain an unrealistic level actually aggravates the problem; it leads to misconceived investment which wastes dollars. Industries are started to produce goods which could be bought cheaper abroad and in pursuing such capital outlays, the dollars wasted in doing so are not available for other things that might be usefully imported; at the same time farmers are induced to leave the soil to work in these miscast factories and the corollaries which they require in the form of transit, communication and other facilities, necessitate additional imports, further aggravating the foreign exchange position. These same considerations and principles, of course, apply equally as well in this hemisphere as they do in their European prototypes. Moreover, foreign exchange controls to maintain an unrealistic exchange rate instead of attracting foreign capital and investment achieve the reverse—they encourage the flight of capital and put a premium on dishonesty to evade the laws designed to prevent it which further worsens the exchange position. These are the results of the banning of free markets.

Fortunately the situation in Latin America is not as serious as it is in Europe and the problem of much more manageable proportions both economically and politically. One of the difficulties in Latin America has been not so much the disparity between the demand for foreign exchange and its supply but the manner in which foreign exchange controls have been imposed and administered; the remedy here should not be too difficult and in this respect I am sure you gentlemen here assembled can make an important contribution in your respective countries in effecting beneficial administrative changes. On this point I should like to quote what Mr. E. M. Bernstein, Director of Research of the International Monetary Fund, recently had to say in his excellent paper before the Inter-American Council of Commerce & Production, which I incidentally commend to the attention of all the delegates:

"Frankly, exchange controls in many Latin American countries have not been efficient. They have not been conducted on a business-like basis. The supply of exchange to importers and to foreign investors is too often subject to administrative regulation in which the businessman is left uncertain as to what he can do and what he can expect. The consequence is that international business in some Latin American countries is a risky undertaking and discourages trade and investment.

"In some Latin American countries exchange controls are suddenly imposed which act retroactively and make payment to foreign exporters and foreign business firms uncertain and haphazard. The effect on the Latin American businessman, who is scrupulously meeting his obligations, is to impair his credit abroad, not because of anything he has done, but because of the unpredictable policies of his government.

"In my opinion, the foreign exchange policy of Latin America must become more orderly. That is an essential basis for expansion of trade and investment in Latin America. The foreign exchange authorities must think in terms of the commitments in foreign exchange which their people undertake. They must make allowance for the fact that obligations payable in foreign exchange must be met with the same diligence as obligations of businessmen and banks to each other at home. This is not as difficult a policy as it may seem."

As I said last year, Latin America, broadly speaking, is just on the verge of emerging from the simple raw material or extractive economy and you have the whole vista of the era of industrialization with the advance in the standard of living that accompanies it to look forward to — we have every reason to foster this development—not only as a matter of neighborliness, but also for strategic as well as sound business reasons; if you will look at the record you will find that we do our biggest trade with the industrialized countries.

The Real Problem

The problem is not to hurry the process but rather to begin by correcting the underlying things which unbalanced the exchange position in the first place and led to the imposition of the foreign exchange controls in those countries where this applies. This means in the first place the reestablishment of sound money and the institution of a balanced budget. Once a sound currency, a sound banking system and a balanced budget have been established, other things begin to take care of themselves—the foreign exchange controls can be abandoned and a free market restored for foreign exchange transactions. The mere ability to move in and out of a currency at will and no questions asked, will generate confidence at home and abroad; the dollar scarcity will disappear—in fact, of course, the term is a misnomer;

1 Right at this very moment the most controversial subject in the financial field in the United States is the question as to whether and how to extricate ourselves from the position we got into by abandoning the principles of the free market and maintaining the wartime supports of the long term government bond market which has forced the Federal Reserve System to absorb sales of U. S. government bonds from insurance companies and others in amounts aggregating nearly $9½ billion since last November, selling an almost equal number of other government securities to do so.

there is no scarcity of the dollar or any other currency in a free market because by definition the supply and demand are balanced at a price; the urge to export capital will be replaced by a desire once again to invest local savings locally.

Such local investment should be the basis for the importation of foreign capital in any event, and I submit that you will get a greater and more continuous inflow through private channels than you will out of government loans. Government loans are apt to be spasmodic and moreover are much more likely to be wasted, misdirected and misspent, extending production facilities beyond a normal basis and then necessitating a painful readjustment later; private capital investment is apt to be much more continuous and the potential amounts that could be attracted are much greater, when local conditions are fair and attractive, and regulation, legislation, and administration is equitable and applied uniformly. Moreover, some of this money would be equity capital instead of a fixed interest-bearing obligation. It is well to remember that fixed interest-bearing obligations either government or private which require payment of interest and sinking funds in foreign exchange are fundamentally unsound, unless the investment of the borrowed money, directly or indirectly, produces sufficient foreign exchange to cover the debt service. In fact, foreign debt service not on this basis will accentuate an economic depression in the borrowing country, if paid, or produce a default if not paid, thus adversely affecting the credit of the borrower. Also, along with it would come American know-how, which you don't get with a government loan. Put yourselves in our position—would you, if you were an American, invest in your country—if the answer is "yes," then I daresay the above mentioned prerequisites are present—but not when there are foreign exchange controls which prevent egress at will—even a fluctuating exchange is decidedly preferable to a situation where you can't move at all. American capital is venturesome and will take a fluctuating exchange rate into its risk calculations as long as the market is free; moreover, if the investment is a direct one in a Latin American enterprise side by side with local capital, the presumption is that the earnings in terms of the local currency will rise, should the exchange depreciate. I for one am persuaded that, given only an attractive financial climate, that American corporations alone would over the next two or three years invest sums that would run in the hundreds of millions of dollars and certainly many, many times that which you could possibly expect to receive via government loans or guarantees even under the most favorable conditions.

Bases for Latin-American Investment

You must also provide the climate if we are to make any progress in interesting our respective clients in American and Latin-American securities, which after all is the purpose of our meeting here in beautiful Santiago. There is one suggestion I would like to throw out at this point—namely, wherever applicable, you consider the possibility of obtaining consent to provide exchange for the transfer of dividend and interest as it accrues, as the Canadian government does—this does not provide the same benefits as a free market in foreign exchange, but at least it is a step in the right direction. Some of you already have some provisions along this line — perhaps the conference should memorialize the respective governments to enact clear cut and uniform legislation to this effect. Uruguay has embarked on a new departure to attract foreign funds which will be interesting to watch. I refer to the legislation recently passed which guarantees the right to withdraw for reinvestment elsewhere on payment of a small tax. Chile has also made a notable contribution which is certainly in the right direction and only one step removed from a free foreign exchange market. I refer to your annual foreign exchange budget which not only allocates the prospective exchange receipts but what is even more noteworthy sets aside a part ($5,000,000 exclusive of the copper mining industry which takes care of itself out of its own exports) for the transfer of earnings—that is, profits, dividends and interest on foreign investments. In fact the record of the country of our gracious host—Tomas Eduardo Rodriguez — is outstanding and praiseworthy in a number of other aspects. In the first place the financial and business communities of Santiago and Valparaiso have consistently fought for free markets and free enterprise and are doing so again at this conference — note the speech of our toastmaster Mr. Heriberto Horst at yesterday's delightful luncheon. Secondly, Chile has a balanced budget; in the third place Chile has put its foreign debt service in order by providing for the resumption of interest service on a fixed basis plus regular amortization. Other Latin-American countries which have not done these things might well follow Chile's example. In view of all this, it is not surprising that Chile should be the first Latin-American country to get a loan from the International Bank ($16,000,000); it is a great and deserving tribute to her.

However, I should like to emphasize that in the field of encouraging private investment lies the only hope of any substantial export of capital from the United States—not only should government-to-government loans be eschewed as a general principle for the reasons already stated and reserved for projects which otherwise would not be feasible, but you should know that American opinion is undergoing a change in regard to such operations and the American taxpayer must now be shown weighty reasons before he will consent to such transactions. I think this trend will become more evident as time passes; it reflects the growing realization that except where military or strategic considerations are involved, the sound approach, be it vis a vis Europe or Latin America, is via private channels rather than government-to-government loans. Military or strategic considerations might, for example, demand the development of certain of your raw material resources and I feel confident that if such projects be found not to be commercially feasible, the American government, under whichever administration, will be willing and ready to lend its assistance—if I were to make a guess, probably through government guaranteeing transactions entered into between private entities in the United States and private entities in Latin America.

Chances of Abolishing Exchange Controls

Now what are the chances of abolishing foreign exchange controls where they exist in Latin America with all that this implies in terms of internal readjustment to be made? I submit the problem is not nearly as serious as it appears on the surface and that it is well within the realm of possible achievement.

In the first place the most essential imports to fill up the vacuum created by the war have been made, and broadly speaking if unessentials are cut out, the balance should not be too far away. Moreover, there are straws in the wind of the readiness of American capital to take a renewed interest in South America the moment conditions become more favorable—take for example the opening of stores by Sears Roebuck in Havana, Sao Paulo, Rio and Mexico City—this is most significant especially as the long-term objective is to include local sources of supply. The fact that even under present conditions such concerns as Celanese (Mexico), United Merchants (Uruguay and Venezeula) and Lone Star Cement, to name but a few American corporations at random, have recently or are currently increasing their capital investment, is symptomatic of what might happen. I also would not fail to call your attention to the great work which the International House and the International Trade Mart in New Orleans are doing in fostering Latin American trade and relations and the tremendous response which they are getting. Last, but not least, there is the project of the Anaconda Copper Company to invest an additional $130 million right here in Chile over the next few years—a significant example of the potentialities of private investment in Latin America.

Moreover, you have a tremendous advantage over us in the fact that generally speaking your taxes are low so that it should not be too difficult to arrive at a balanced budget; we unfortunately are at a point where, largely as a result of our heavy war expenditures, our taxes are so heavy that we have to a considerable extent socialized our capital formation in addition to having arrived at the point of diminishing returns in the level of our taxation. Your biggest danger as a matter of fact, from the point of view of arriving at balanced economies, lies in the threat of a recession in the United States which would not only reduce the volume of your exports, but presumably also reduce their prices — and of course raw material price fluctuations are particularly painful because they have such a direct effect on your balance of payments. Now in this respect I can certainly bring you reassurance—no such recession is indicated. A week ago Sunday Sumner H. Slichter, Professor of Economics at Harvard, writing in the New York "Times," made the flat statement that the American economy was never more stable—I share this opinion and recommend the article to you as it provides an excellent analysis of our present position. The mere fact that we are having to embark upon a sizable rearmament program is alone sufficient to prevent any significant recession; it will mean sustained exports for you.

So the road is clear for you—for Latin America to go forward. Allow the principles of a free economy and of free markets and particularly free foreign exchanges to operate. You have vast undeveloped natural resources, you are only at the beginning of the era of industrialization and you have the tremendous asset of living under democratic institutions. Moreover, you may rest assured that whatever the outcome of our November elections, there will be no change in the underlying American policy of friendliness and cordiality toward our Latin American sister republics which transcends politics because it stems from the American people.

Redemption of Cuba Bonds

J. P. Morgan & Co. Inc., as Fiscal Agent, is notifying holders of Republic of Cuba External Debt 5% Gold Bonds of 1914, due Feb. 1, 1949, that all outstanding bonds of this issue will be redeemed on Feb. 1, 1949, through operation of the sinking fund, at 102½% and interest accrued to the redemption date. Payment will be made at the office of the fiscal agent in New York City, or at the office of Morgan Grenfell & Co., Limited, in London.

1949 Business and Financial Outlook

(Continued from page 6)

ally kept urging higher wages, although they may feel in their hearts that wages are high enough for the time being. We forecast that 1949 will see some change of attitude in this regard and that wise leaders will be more interested in preventing the "bust."

If wages are too high, organized labor is the first to be laid off when business declines. Unorganized workers have the steadiest jobs and will go through 1949 without losing their positions.

Some labor leaders will, during 1949, work for pension systems and sick benefits. This would be a constructive program for employers who can afford to do it, but many employers cannot afford even these benefits at this time. Both employers and wage workers will some day unite in urging a program which will give steady work throughout the year. This is the best hope for lower building costs. Bricklayers, painters and carpenters are criticized today for doing such a small amount of work, but we must remember the many days when they are unable to work due to weather and other conditions.

Inflation

Inflation (high prices) comes when consumption exceeds production. This means that inflation can be checked only by increasing production or by reducing the money supply. The job of getting prices down today depends, therefore, upon what management and labor produce per hour. We believe that wage increases during 1949 will be accompanied by a corresponding increase in the per hour production of the wage workers.

Some object to the large profits that their employers are getting today compared with the 1930's. It, however, should be remembered that during these depression years most employers had no profits whatsoever. We forecast that profits will continue to be regulated automatically by the law of supply and demand, rather than by the government.

At some time during 1949 we forecast that the point will be reached where the nation's inflated money supply will have become fully employed. Hence, emphasis may shift from efforts to stop inflation to efforts to halt deflation.

Stock Market

1949 may not be a better year stock marketwise than 1948. Investors will especially get out of stocks of companies which have most of their assets in big, "vulnerable in case of war" cities, reinvesting in companies whose assets are well distributed and safe from attack.

The Administration will not want the Dow-Jones Industrial Average to go too high on account of the consequent effect upon labor's demands. Commodity speculation will continue to be curbed.

The wisest will not try to pick any special "winners" in 1949; but will diversify broadly. Those who have too many stocks will gradually build up good reserves, in cash or Governments, for the big break which will come some day. Careful buyers of stocks will insist on making full payment and avoid borrowing during 1949.

Safe dividend paying stocks will be in greatest demand, especially if double taxation on dividends should be eliminated.

Bonds

We are definitely bearish on low-coupon-rate, long-term taxable bonds as money rates will gradually increase.

If Congress should exempt dividends from double Federal taxation, 1949 will see a further falling off in the prices of certain tax-exempt bonds.

We forecast no change in the nation's monetary policy relating to credit control and interest rates during 1949.

Investors will give much more attention to diversification in 1949 and will try to have their bond maturities either fairly short or staggered.

Real Estate

City real estate will continue to hold firm through 1949, due to less available rental space caused by pulling down structures to save taxes, provide parking space, etc. There also is a disinclination to build new city property in view of the present high costs.

Suburban real estate will continue in fair demand during 1949 although there will be some shading of prices.

Big commercial farm acreage will sell for less during 1949; but subsistence farms, located close to established communities, will hold up in price.

General building will decrease during 1949 although the cost of building may decline a little. The quality of workmanship will improve.

Both office and residential rents will be higher in 1949. Only as property owners are granted higher rentals, will there be enough houses to rent.

Mortgage interest rates during 1949 will continue about the same as in 1948. Any changes will be toward increases.

Politics

The Administration will encourage legitimate new enterprises and full employment, continuing its loyalty to labor and the farmers.

Vacancies in the various commissions and government corporations organized since 1932 and which have great powers will be filled by men acquainted with legitimate business but friendly to Mr. Truman.

Congress will take our foreign policy out of the hands of the State Department and the Brass Hats.

The Administration will be fair both to labor and management or lose the Congressional elections of 1950 by bringing on depression.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Secondaries still show quality during current dullness. Expect new "up" activity in the immediate future.

Starting this week and continuing on for the next few weeks the financial sections of most newspapers will be full of forecasts for the coming year. I'm looking forward to them in the quaint belief that some of them will really say something I can sink my teeth into.

* * *

In the past, practically all such annual forecasts were made up of equal parts of pointing with pride and viewing with alarm, liberally larded with pious platitudes of things everybody spoke about but few followed. I have no reason to think they'll be any different this year.

* * *

All this is a preamble to a nascent desire to also attempt to tell what will happen in the stock market in 1949. Ordinarily I'd have no hesitation in climbing out on a limb. But with the recent debacle still very much alive in my memory, I prefer to sit this one out. Reduced to common words: I haven't the faintest idea what 1949 will bring either in the stock market or in business. I know what certain patterns indicate. I also know that these patterns can switch rather rapidly, and to coin a cliche, "I don't want to be caught in the switches."

* * *

So far all this reads like a total waste of white paper, which it probably is. But year ends and the common belief that tearing a page off the calendar changes stock market and economic outlooks have always annoyed me. Industries thrive on long-range planning and execution, not on calendar changes.

* * *

Now, to get back to work: The market is currently in one of those phases characterized by a lot of do-nothing. I don't think it will stay there very long. The lifting of tax selling or a combination of other things that go to make up public psychology, will probably lift the market out of its current rut to send it to higher levels. So far the same type of stocks the so-called secondaries I called attention to a few weeks back, continue to act better than their big brothers, the widely accepted blue chips.

* * *

It isn't, however, plausible that the secondaries will be strong enough in themselves to change a general market trend. It is therefor expected that the popular leaders will also go up to make the familiar averages look good.

* * *

This has been the picture for the past few weeks, a picture the market has apparently agreed with judging from the action of various groups. This also points to the more practical fact that it is during periods of dullness that buying should be done. Conversely, it is during periods of activity on the upside that liquidation is called for. . . . And now everybody, all together, A Happy New Year!

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Chicago Exchange Member

CHICAGO, ILL.—Ronald E. Kaehler, President of the San Francisco Stock Exchange, announced the election of William D. James, of William D. James Company, to regular membership in the Exchange. Mr. James acquired the seat from Kenneth D. Geissler for $8,000, which is $6,000 lower than the previous sale price.

William D. James Company, which is located in the California State Life Building in Sacramento, has conducted a general brokerage business for several years. Mr. James is the senior partner and has made the securities business his career.

With Blunt Ellis And Simmons

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Earl C. Jockish became affiliated with Blunt Ellis & Simmons, 208 South La Salle Street. Mr. Jockish was formerly with Paul H. Davis & Co., Wayne Hummer & Co. and Goodbody & Co.

With Barclay Investment

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Leo F. McNaney has become associated with Barclay Investment Co., 39 South La Salle Street. Mr. McNaney in the past was with M. B. Vick & Co. and Otis & Co.

Forecast For 1949

(Continued from first page)

able would come to listen to a discussion of the business outlook at this period. Sometimes uncertainty exists as to the prospect for business. But, surely this is not one of those times. The United States has had a boom which has gone to unusual heights and has persisted an unusually long time. All resources, both human and material, are fully employed and perhaps over-employed. Under these conditions, how can there be much doubt that the betting odds are clearly that the next move in business activity will be down? But, at the same time the presence of many cushioning and supporting forces surely make the odds fairly high that this next downward move will not attain serious proportions, at least in 1949. Indeed, the odds are that the majority of the American population will be unaware from personal experience of what the economists may call a downward phase of the cycle. These seem to me to be at betting odds and I, for one, at least, cannot go further than to conclude what the odds seem to be. I am filled with envy at those who can reach certainty.

At this point, I could perfectly well stop but your program committee has insisted on a 30-minute discussion so I must fill in the rest of the time. This I shall do by reviewing the reasons which lead me to the conclusions just stated. I shall outline three wholly different and unassociated approaches to the condition of business which concur in the finding that a decline is likely to be the next move. Then, I shall outline the reasons for believing that the decline, at least in 1949, will be moderate at the most.

I

Professor Gottfried Haberler, of Harvard, has made a most exhaustive analysis of the theories of business cyclical movements in his great book "Prosperity and Depression." In search for light on the business outlook I have studied the four phases in which he presents his "synthetic exposition relating to the nature and causes of business cycles," these being respectively, expansion, contraction, crisis (upper turning point) and crisis (lower turning point). Of these four the present situation has striking resemblance to his discussion of the upper turning point. As I read it, he makes 10 points, some of which are interrelated, and all of these are now present in one degree or another. Time does not permit discussion so I shall give the points as I understand them, with hopes that I fairly represent Professor Haberler — and with the strongest possible recommendation to all of you to read his splendid work.

(1) The government has been deflating by producing a cash surplus. (p. 349)

(2) The central bank has been taking some contractive actions. (p. 349)

(3) The commercial banks have been encouraged by their leadership to exercise constraint in the extension of credit. (p. 349)

(4) Reductions in the level of output are occurring for some specific industries. As Professor Haberler describes the likelihood of spreading reactions, there is at least a possibility that repercussions will spread in amplifying the waves. "This discussion leaves us with the conclusion that a breakdown in an individual industry may very well cause at least a temporary fall in total demand below the level at which it would otherwise stand. Whether this will start a cumulative process of contraction or not depends, first, on the magnitude of the disturbance and secondly, on the general situation. If a general expansion is going on which has not yet exhausted its force, such a disturbance may be overcome provided it is not too strong. If, however, the expansion has already lost its elan, the economic system will be vulnerable and may easily be plunged into a process of general contraction." (p. 354)

(5) Both the money supply and the supply of means of production may have limited elasticity on the upside. "The two most essential conditions for the smooth progress of an expansion are, broadly speaking, an elastic supply of money and an elastic supply by means of production. Both conditions are essential. If either is lacking, the situation becomes precarious." (p. 356)

(6) The expansion has proceeded to a point where the following statement would seem to have applicability — "The mere cessation or even the slowing down of the expansion will produce a serious set-back in a number of industries; and this may very well lead to a general process of contraction." (p. 366-7)

(7) "The scale of output in the capital goods industries is geared to an expanding production in the consumers' goods industries. If the latter stop expanding, the former lose a part of their market and are compelled to scale down the level of their activity." (p. 367) "If prices have gone up for a while and producers in various industries have been led to expect a further rise, the disappointment caused by the cessation of expansion and of the rise in prices will be all the greater." (p. 368)

(8) "Efficiency wages are raised by the fall in efficiency of the workers. It is very likely that the attitude of labor and the rise of wages during the upswing will put a brake on the further expansion of employment and output in a number of industries long before the physical limits have been reached." (p. 373)

(9) "The monopolistic restriction of the supply of factors of production other than labor and the raising of prices other than wages have the same effect of slowing down general expansion."

(10) "The type of maladjustment which we have in mind is an insufficient demand either for consumers' goods in general or for certain types of them or for certain types of capital goods. It is the type of maladjustment which Professor Robertson ascribes to the temporary 'gluttability of wants', or which Professor Pigou has in mind when he says that the optimistic forecasts which have been made during the boom and have materialized in heavy investments in different lines of industry, are brought 'to the test of facts'—and by the test are found wanting—after the close of the gestation period for a number of things, the production of which was started during the upswing." (p. 374)

All of these 10 points appear to prevail, or possibly to prevail, to a greater or lesser extent. Some certainly do not exist in extreme form—which is one qualification on any interpretation of their meaning. Another qualification is introduced by Professor Haberler who says "but only extensive empirical studies can show whether the contention of so many well known writers is correct, and it is actually a fact that processes of expansion regularly develop a certain type of maladjustment and in turn are brought to an end by them."

These two qualifications prevent any positive conclusion that business cyclical theory, at least as synthesized by Professor Haberler and as interpreted by me, when applied to present conditions, can be the basis for a confident forecast of a downturn. However, the conditions which exist have far greater similarity to the conditions postulated by theory as pointing to a downturn than to those which might be expected to prevail at any other phase of the cycle. If theory does not point to a downturn it, at least, raises strong question about the outlook.

II

Let me now turn to a wholly different approach to the question of the outlook which is entirely unassociated from an examination of current conditions in relation to cyclical theory.

Probably everyone who has ever undertaken business cycle analysis has spent some time searching for signals that will predict coming changes. I expect that every economist, professional or amateur, (and that includes virtually every American) has a few pet signals of his or her own. Because the use of signals is such a pervasive as well as plausible technique, this type of approach deserves our examination, and constitutes my second consideration of the question of the business outlook. The rationalization of signals would be, of course, that they directly or indirectly evidence development of some underlying maladjustment which will end, or contribute to ending, the boom.

Over a long period of years the National Bureau of Economic Research has been engaged in the collection of statistical series for the measurement of economic activity. Its collection is, in all probability, the largest in the world. One use for such series is to try to identify those which have predictive value — to find which ones turn far enough in advance to provide signals of things to come.

While the National Bureau has not completed its studies and has not reached any conclusions, its materials have been made available to one of my colleagues, Mr. John M. Hartwell, for examination. He has identified 24 time series which over a large number of past cycles have had genuine predictive value at upper turning points.

In the downturns of 1920, '24, '27, '29 and '37 the majority of these series turned down in advance of the general business decline, providing warning of a coming slump from 4 to 10 months in advance. The majority of this set of signals had turned down by early 1946 and on the basis of the time lag which has previously prevailed, the United States should have had a downturn in business not later than early 1947. This signal given by the majority of these series has not been reversed.

And so the warning provided by this approach stands.

But this approach does not, anymore than that of theory, provide certainty. Perhaps the change in conditions provoked by World War II and the passage of time has robbed this set of signals of their validity. Perhaps, the war introduced factors which simply serve to extend the time lag between the turn in these series and the turn in general business. Furthermore the long, wide road of bad forecasts is strewn with signal systems which seemed perfect when applied to past conditions, but failed to be valid when the designer started to use them. Only time is going to reveal their fate now. Yet only those who are prepared to say that past experience has been entirely invalidated will dismiss this warning peremptorily.

I do not, by the way, mean to suggest that this list of 24 series is the final work in predictive signals. But, I believe that it contains most of the items that most signal users give attention to and,

therefore, that it may be sufficiently indicative of what is to be found by this approach to the question of the business outlook.

Time has not permitted me to proceed in the study of predictive signals to examine sunspots, weather cycles, cosmic radiation, numerology and other such parts of our existing superstitions about business. This may indicate a blind spot in my vision or may bring the charge that I, like the mule that walked into a tree, am not blind but just plain careless. I shall have to risk the indictment, but I hope that students of those matters will report their findings.

III

I want now to turn to still another approach to the question of the business outlook wholly and completely unrelated to the exploration of theory and the exploration of predictive signals which have been covered up to this point.

This third approach is to examine the position of business to see if any soft spots are visible. An examination of the current business picture seems to me to show a number of rather specific soft spots.

(1) Business inventory accumulation has been proceeding in sizable volume for a number of years. Business inventories rose in 1946 when Gross National Product fell; their increase equaled 2.7% of the rise of GNP in 1947 and an estimated 15% in 1948. By the usual measures inventories generally are not now excessive but on the other hand we cannot expect inventory accumulation to add an increment to output year after year indefinitely. At some point, their rise will fall to zero—indeed, sometime they will fall. Each interval in which a positive increment occurs brings closer the time when this item will be reversed.

(2) Precisely the same consideration applies to the support provided by the rapid expansion of consumer credit and mortgage—especially residential mortgage—credit. Sizable expansions have been occurring in both these lines. The increase in these two items equalled more than the total increase in GNP in 1945, made a large positive contribution in 1946 when GNP declined, equalled about 40% of the rise in GNP in 1947 and will equal a large per cent of the rise in 1948. As in the case of inventories, neither one is now excessive or even high on the basis of past relationships. But the increment they have been providing is a vulnerable one and at some time will prove non-recurring.

(3) For some years the United States has made a net investment abroad of a number of billions of dollars. This net foreign balance is one form of investment which takes goods off the market. The annual rate by the latter part of 1949 will be lower than that of early 1949, of 1948 or of 1947, and on the assumption made in the European Recovery Program, it will diminish regularly for at least the next two or three years. It is, therefore, a soft spot and one which may be expected to constitute a diminishing contribution to GNP.

(4) Business investment in new plant and equipment constitutes an important support to GNP. Though the total is not high in relation to GNP as judged by prosperous years, there are frequent reports that we may now be close to the end of some of the large business capital expansion programs. So positive are some of these reports from some industries that this area must be classed as dubious.

(5) Housing construction is not now high in relation to GNP, but there is some reason to believe that the volume will be lower in 1949 than in 1948. This is not surprising, for though the demand seems large, there are unhealthy elements in the picture, of a quite different kind than mortgage credit, which has already been mentioned. The number of units now being constructed exceeds the current rate of family formation. Furthermore, there are many families which have bought, and now own houses most unwillingly. Not a few houses are likely to come on the market when these people find some housing that better suits their needs. At that point some speculative and other builders may find their wares in less demand, and find curtailment of operation—shall we say—advisable.

(6) Labor wage rates are very high in comparison with past periods, and probably are somewhat more rigid than in the past. This condition may constitute a mechanism which will aggravate and exaggerate any weaknesses in demand. A decline in sales of even moderate proportions in some industry could turn profit into a loss and compel curtailment of operations. Such curtailment at one spot could diminish sales elsewhere and, in turn, with prevailing high costs, bring curtailment there. And so a small decline at one spot could spread and amplify. We have had little experience with such high labor and material rates in such rigid form, and little experience with over-employment. The possibilities for sudden change in output from even small alterations in demand may be considerable, and we should do well, I think, to be watchful of this situation.

(7) Finally, the present process of financing private investment is surely untenable in the long run. For about two years the demand for new capital in the corporate security and mortgage markets has been satisfied at current interest rates only by the purchase of a large volume of long-term U. S. Government obligations by the Federal Reserve banks to provide the funds to permit institutional and individual investors to absorb the securities and mortgages offered to finance investment. It is true that the Federal Reserve has sold a substantially equivalent amount of short-term government securities, but this is a different point even if quite important as regards monetary conditions. For so far as long markets go, Federal Reserve funds have been necessary in large volume to support the present rate of construction and business capital outlay. I certainly do not predict that the Federal is about to cease its support operations but I do observe that the process is equivalent to an excess of investment over savings. The nation is not saving enough for present levels of investment—or I might say that it is not buying enough of a certain most estimable product of unmatched excellence in providing security for dependents and for old age, widely offered by certain private companies, which, to avoid the risk of being called cross, I shall not identify. The capital and mortgage markets are, therefore, on high stilts. How this process will terminate is a challenging problem, but I do not see how it can be regarded as enduring.

Others may identify other soft or suspect spots in business and I might agree to some of them. These seven, however, seem to me most specific.

An examination of the current picture to see if there are visible soft spots, which constitutes a third approach to the business outlook, produces the same results as the approaches to the question by considering business cycle theory and predictive signals.

A few swallows do not make a summer, nor do a few polls make a president. Likewise, a few soft spots do not make a slump. But they do constitute evidence to be considered, especially when there is considerable other evidence pointing in the same direction.

IV

You will have observed, doubtless with considerable impatience, that in reviewing these three separate and distinct approaches to the business outlook that little mention has been made of the timing. From what has been said to this point, one could argue that a downturn in business might occur beginning tomorrow or that equally it might be delayed for months or even a year or two. Your impatience is fully justified.

But there is even further qualifications to the relevance of what has been discussed by these three approaches to the problem. There are some significant dissimilarities to previous cyclical downturns and these must constitute a further addition to your impatience. The chief contradictions of this type are five.

(1) The money supply, measured with or without time deposits as money, is larger in relation to Gross Natural Product than has been the case at the upper turning point of any previous cycle since World War I—and probably a much longer time. Indeed, the only previous times when the money supply, including time deposits as money, has been so large in relation to Gross Natural Product as now prevails, was at the lower parts of the last two depressions—specifically during the years 1931-1935, inclusive, and 1938-1940, inclusive — when it could have been taken as a signal for an upturn instead of a downturn, and since the war. And the only previous time when money supply excluding time deposits was as large, has been since 1945.

(2) The market rates of interest are, of course, low beyond virtually any previous experience. This is wholly dissimilar from the condition at previous points of cyclical downturn. If incentives to invest prevail they surely are not being frustrated by interest cost.

(3) And such incentive to invest does indeed prevail. Never before has machinery been so cheap in comparison with labor costs as it is now. Never before has the businessman, the farmer or the home owner had so great an economic and financial motive to mechanize. And I believe that never before have we had a time when scientific development has offered as much possibility for technological improvement.

(4) As measured by the stock market, the state of expectations in this country is not high or excessive, as has frequently been the case at boom turning points. Never before in peacetime have the equities of American business been so cheap in terms of earning power or in terms of book value. And in connection with the latter point, I expect that book value has never been more free of water nor further below reproduction cost. Therefore the return on equities is exceedingly attractive by any historical comparisons one can make and quite remarkably attractive as compared with the alternative of investment in bonds. This state of the stock market is not at all characteristic of points of cyclical downturn.

(5) Government expenditure seems likely to rise on account of defense outlay and probably on account of expanded social services in 1949 and perhaps beyond. I include here not only the Federal, but as well the State and local governments, whose needs for schools, streets, roads, hospitals and many other public improvements seem certain to bring further increases in outlays. This is frequently cited as probably offset to the possibility of declines in other areas of the economy. Furthermore, there is still another aspect of government expenditure which seems important to me but is less frequently discussed. An unusually large proportion of the national income or Gross National Product is accounted for by government expenditure. The proportion is larger, indeed, than in any peacetime period other than one of the non-prosperous years before World War II. This government expenditure can hardly be subject to significant downward fluctuation at least in accord with any business cycle concept. This large proportion of outlay not subject to cyclical fluctuation, therefore, limits the area of the total economy subject to such fluctuation.

These five conditions seem to me to constitute at very least a resilient cushion to any decline which might be started in business activity. The argument is made, indeed, and with much force, that they are so resilient as to prevent any decline at all.

And it will doubtless encourage the faint of heart to recall, that the majority of post-election years since 1860 have been years of rising business—though not of rising stock markets.

V

I stated in the beginning the conclusion which I draw from this evidence. To repeat, it is that the odds are that 1949 will see at least the beginning of some cyclical downturn in business but that the odds also are that this decline will be sufficiently limited so that most of the American population will know of it only from their newspapers but not from personal experience.

This discussion, of course, has been devoted to cyclical considerations. It does not in any way attempt to cover any non-cyclical interruptions to business which might occur on account of strikes or war or other wholly extraneous factors.

In closing, it is only fair to tell you that I am uncomfortable about the conclusion I draw because, as was the case in the elections, too many people hold the same view. I am uncomfortable because of the memory that what looked like moderate recessions in the past have so often shown unexpected and unforeseen viciousness, 1937 and 1929 being two examples within the memory of many of us. I am uncomfortable because our techniques of measurement are so unprecise and inadequate: we need better, more sensitive and more adequate measurements in almost every single line. And I am uncomfortable because most of our present methods of analysis have been carried over from what was in many respects a truly different world prior to September, 1939, and may well be quite inadequate, or even irrelevant, to the world in which we now live. I would be less than frank with you if I failed to call attention to all these qualifications.

But if a forecast of the outlook must be muddled by qualifications which candidness and conscience require, a clear-cut suggestion for operating policy can be drawn. The purpose of attempting business forecasts is to help in the formulation of some policy which must be reached for some purpose by an individual or business or government. Now the requirements policy formulation imposes on forecasting seem to me much less rigorous than is usually implied. Or should I say that executives take the forecasts a little less seriously than the economists who make them? In only a very small number of cases is a specific quantitative measurement or a specific time factor really required, or, if required and produced, applied very literally. Our friends in the stock market need such high precision and so do certain other lines of business, but for most policy making which requires a forecast, the requirement for precision is not very great. Allowing for the relative inflexibility of most business operations and for the fact that no executive can ever be sure that a forecast will be right and so must hedge against it to some degree, the maximum use of the forecast is to indicate the extent to which caution or daring should dominate operations. It is unreal in the great majority of cases to think that either the requirement for the forecast or the use of the forecast will be much greater than this.

In this definition the present situation is, I maintain now as in the opening, easy and I do not understand, to repeat, why so many people take so much time and spend so much money listening to discussion of the outlook. Surely, it is clear where prudence puts the emphasis under present conditions. For every experience study I know of business or investment losses shows that the outstanding cause is over-optimism in a boom.

For the use which forecasts preponderantly serve I reach a conclusion which I do state with confidence: Whether the boom lasts another day, another month, or even another year or two, policy should emphasize caution and not daring.

Life Companies Add $3½ Billion in Mortgages in 1948

More than $3,300,000,000 of life insurance funds went into the financing of real estate mortgages during 1948, a record volume of such financing up $600,000,000 over the previous year, the Institute of Life Insurance reports.

At year end, the Institute estimates, total mortgage holdings of the more than 500 life companies were valued at $10,825,000,000. This is $2,150,000,000 more than at the start of the year and gives an indirect mortgage investment per policyholder of about $140 or about one-fifth of total funds held per policyholder. The mortgage investment of the life insurance business is now very nearly double that of 1938.

FHA homes accounted for well over a billion dollars of the year's new financing by the life companies and at the close of the year their holdings of home mortgages written under the FHA plan are estimated to be $2,350,000,000.

The financing of Veterans Administration mortgages under the GI Bill of Rights continued in large volume during 1948, with more than $400,000,000 new mortgages of this type purchased by the life companies. Their holdings of such mortgages at year end are estimated at $1,225,000,000.

COMING EVENTS

In Investment Field

Jan. 14, 1949 (Baltimore, Md.)
Baltimore Security Traders Association 14th Annual Banquet at the Lord Baltimore Hotel.

Jan. 25, 1949 (Chicago, Ill.)
Chicago Bond Traders Club party at the Bal Tabarin Inn of the Hotel Sherman.

Jan. 26, 1949 (Minneapolis, Minn.)
Twin City Security Traders Association Winter Party.

Jan. 28, 1949 (St. Louis, Mo.)
Security Traders Club of St. Louis Winter Party.

Feb. 12, 1949 (New York City)
Friday Night Bond Club Annual Dinner Dance at the Hotel Pennsylvania.

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Indications of Business Current Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Jan. 2	97.3	88.6	100.1	96.4
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 2	1,753,800	1,597,000	1,804,300	1,686,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 18	5,645,250	5,620,150	5,659,150	5,284,489
Crude runs to stills—daily average (bbls.)	Dec. 18	§5,695,000	5,650,000	5,676,000	5,246,000
Gasoline output (bbls.)	Dec. 18	17,902,000	18,395,000	17,802,000	16,006,000
Kerosene output (bbls.)	Dec. 18	2,537,000	2,506,000	2,472,000	2,291,000
Gas oil and distillate fuel oil output (bbls.)	Dec. 18	7,539,000	7,553,000	7,577,000	6,250,000
Residual fuel oil output (bbls.)	Dec. 18	9,053,000	8,946,000	9,119,000	8,643,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 18	98,225,000	97,110,000	91,244,000	87,056,000
Kerosene (bbls.) at	Dec. 18	25,342,000	25,512,000	26,908,000	16,866,000
Gas oil and distillate fuel oil (bbls.) at	Dec. 18	81,071,000	82,406,000	84,392,000	51,502,000
Residual fuel oil (bbls.) at	Dec. 18	87,217,000	86,641,000	84,577,000	52,113,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 18	754,545	783,276	857,492	832,130
Revenue freight rec'd from connections (number of cars)	Dec. 18	666,197	673,346	694,406	722,413
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 23	$173,235,000	$146,187,000	$80,802,000	$63,608,000
Private construction	Dec. 23	111,832,000	44,038,000	32,606,000	36,231,000
Public construction	Dec. 23	61,403,000	102,149,000	48,196,000	27,377,000
State and municipal	Dec. 23	50,204,000	70,255,000	43,086,000	18,837,000
Federal	Dec. 23	11,199,000	31,894,000	5,110,000	8,540,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 18	11,410,000	*11,960,000	12,050,000	13,020,000
Pennsylvania anthracite (tons)	Dec. 18	940,000	946,000	1,039,000	1,222,000
Beehive coke (tons)	Dec. 18	159,100	*154,000	150,200	148,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 18	575	564	371	576
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 25	‡5,550,000	5,790,191	5,349,167	4,829,579
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 23	116	96	101	38
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 21	3.75628c	3.75628c	3.75628c	3.19541c
Pig iron (per gross ton)	Dec. 21	$46.82	$46.82	$46.82	$37.06
Scrap steel (per gross ton)	Dec. 21	$43.00	$43.00	$43.00	$39.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 22	23.200c	23.200c	23.200c	21.200c
Export refinery at	Dec. 22	23.425c	23.425c	23.425c	21.475c
Straits tin (New York) at	Dec. 22	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Dec. 22	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Dec. 22	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Dec. 22	17.500c	17.500c	17.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 28	100.97	100.95	100.79	100.69
Average corporate	Dec. 28	111.81	111.44	111.07	110.34
Aaa	Dec. 28	117.60	117.40	116.80	115.43
Aa	Dec. 28	116.02	115.43	114.85	113.70
A	Dec. 28	110.52	110.15	109.97	109.06
Baa	Dec. 28	103.97	103.64	103.47	103.47
Railroad Group	Dec. 28	107.09	106.74	106.39	104.66
Public Utilities Group	Dec. 28	112.37	112.00	111.44	112.37
Industrials Group	Dec. 28	116.22	116.02	115.63	114.08
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 28	2.43	2.43	2.44	2.45
Average corporate	Dec. 28	3.07	3.09	3.11	3.15
Aaa	Dec. 28	2.77	2.78	2.81	2.88
Aa	Dec. 28	2.85	2.88	2.91	2.97
A	Dec. 28	3.14	3.16	3.17	3.22
Baa	Dec. 28	3.51	3.53	3.54	3.54
Railroad Group	Dec. 28	3.33	3.35	3.37	3.47
Public Utilities Group	Dec. 28	3.04	3.06	3.09	3.04
Industrials Group	Dec. 28	2.84	2.85	2.87	2.95
MOODY'S COMMODITY INDEX	Dec. 28	396.6	393.5	402.4	460.5
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Dec. 25	226.8	225.6	231.8	238.4
Fats and oils	Dec. 25	189.6	192.6	212.2	272.7
Farm products	Dec. 25	245.9	243.3	252.1	279.9
Cotton	Dec. 25	305.7	304.3	300.7	336.3
Grains	Dec. 25	208.7	207.7	210.6	304.9
Livestock	Dec. 25	250.8	247.1	261.1	272.6
Fuels	Dec. 25	239.9	242.3	242.3	209.0
Miscellaneous commodities	Dec. 25	171.2	172.7	173.7	180.2
Textiles	Dec. 25	195.3	195.4	194.3	219.7
Metals	Dec. 25	190.6	190.6	190.7	160.4
Building materials	Dec. 25	225.8	225.9	229.0	236.3
Chemicals and drugs	Dec. 25	149.5	149.7	151.0	156.4
Fertilizer materials	Dec. 25	142.8	142.8	142.6	135.6
Fertilizers	Dec. 25	150.8	150.8	150.1	141.8
Farm machinery	Dec. 25	155.2	153.7	153.7	134.5
All groups combined	Dec. 25	220.6	216.9	220.2	223.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 18	155,499	201,641	174,440	157,585
Production (tons)	Dec. 18	194,508	198,237	195,552	183,641
Percentage of activity	Dec. 18	96	96	97	100
Unfilled orders (tons) at	Dec. 18	323,781	363,813	373,804	416,851
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Dec. 25	143.1	143.5	144.6	149.9
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 21	163.8	163.0	164.9	163.2
Farm products	Dec. 21	177.6	174.0	177.6	196.3
Foods	Dec. 21	174.1	172.6	177.1	175.7
All commodities other than farm and foods	Dec. 21	152.8	153.1	153.5	146.5
Textile products	Dec. 21	145.7	145.7	147.1	149.1
Fuel & lighting materials	Dec. 21	136.9	136.9	136.8	126.5
Metals & metal products	Dec. 21	173.8	173.8	173.8	151.8
Building materials	Dec. 21	201.8	203.2	203.3	192.3
All other	Dec. 21	133.3	133.7	134.7	133.0
Special indexes—					
Grains	Dec. 21	170.1	170.1	174.2	251.5
Livestock	Dec. 21	218.3	219.8	230.1	245.4
Meats	Dec. 21	227.8	230.9	238.1	229.8
Hides and skins	Dec. 21	193.7	199.8	206.7	251.8

*Revised figure. ‡Estimated—Subject to revision. §Includes 431,000 barrels of foreign crude runs.

BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of November 30:	Latest Month	Previous Month	Year Ago
Imports	$151,706,000	$139,942,000	$146,540,000
Exports	47,760,000	42,050,000	60,838,000
Domestic shipments	9,514,000	8,400,000	9,626,000
Domestic warehouse credits	14,118,000	11,912,000	15,695,000
Dollar exchange	1,161,000	933,000	3,050,000
Based on goods stored and shipped between foreign countries	15,219,000	17,317,000	9,403,000
Total	$239,478,000	$220,554,000	$245,152,000

BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of November:	Latest Month	Previous Month	Year Ago
New England	$17,918,084	$15,838,786	$18,533,566
Middle Atlantic	72,082,825	58,617,709	63,652,756
South Atlantic	25,962,852	31,486,494	29,790,487
East Central	46,548,545	63,589,863	56,969,115
South Central	36,698,603	39,162,019	35,193,383
West Central	16,039,423	27,889,827	18,958,112
Mountain	14,430,964	8,337,781	6,753,971
Pacific	53,293,276	59,260,969	59,971,425
Total United States	$282,974,572	$304,183,448	$289,322,815
New York City	49,415,458	35,674,139	34,383,467
Outside of New York City	233,559,114	268,509,309	255,439,348

CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS—U. S. DEPT. OF COMMERCE—Month of November	Latest Month	Previous Month	Year Ago
	$176,900,000	------	$206,600,000

COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—	Latest Month	Previous Month	Year Ago
Lint—Consumed month of November	685,166	695,887	759,866
In consuming establishment as of Nov. 30	1,653,888	1,468,500	1,848,480
In public storage as of Nov. 30	8,434,988	7,325,729	5,363,345
Linters—Consumed month of November	116,968	115,116	98,910
In consuming establishments as of Nov. 30	292,871	209,187	175,736
In public storage as of Nov. 30	54,425	57,118	71,213
Cotton spindles active as of Nov. 30	21,231,000	21,157,000	21,438,000

COTTON GINNING (DEPT. OF COMMERCE):	Latest Month	Previous Month	Year Ago
Running bales (exclusive of linters) prior to Dec. 13	13,395,401	------	10,628,211

COTTON SPINNING (DEPT. OF COMMERCE)	Latest Month	Previous Month	Year Ago
Spinning spindles in place on Nov. 30	23,772,000	23,811,000	23,797,000
Spinning spindles active on Nov. 30	21,231,000	21,157,000	21,432,000
Active spindle hours (000's omitted), Nov.	9,253,000	9,521,000	9,530,000
Active spindle hours per spindle in place, November	389	400	400

DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-39 AVERAGE=100—Month of October:	Latest Month	Previous Month	Year Ago
Sales (average monthly), unadjusted	292	286	304
Sales (average daily), unadjusted	298	280	323
Sales (average daily), seasonally adjusted	229	250	*249
Stocks, unadjusted as of Oct. 31	278	267	263
Stocks seasonally adjusted as of Oct. 31	242	236	228

FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX 1935-39=100 (COPYRIGHTED) AS OF DECEMBER 1:	Latest Month	Previous Month	Year Ago
Composite index	141.9	142.0	137.8
Piece goods	142.3	142.7	138.7
Men's apparel	140.8	140.7	136.5
Women's apparel	136.8	137.2	132.9
Infants' and children's wear	130.7	130.7	128.1
Home furnishings	150.2	150.1	144.9
Piece goods—			
Rayons and silks	130.8	130.8	124.7
Woolens	140.9	140.7	135.3
Cotton wash goods	161.2	162.5	161.5
Domestics—			
Sheets	182.5	182.6	174.2
Blankets and comfortables	141.4	141.3	139.5
Women's apparel—			
Hosiery	108.5	108.5	106.8
Aprons and housedresses	147.1	147.1	145.3
Corsets and brassieres	132.5	132.5	132.6
Furs	157.2	160.5	152.2
Underwear	139.4	139.5	132.9
Shoes	141.4	141.4	133.7
Men's apparel—			
Hosiery	140.2	140.2	138.1
Underwear	155.8	155.8	146.4
Shirts and neckwear	132.9	132.9	130.0
Hats and caps	128.1	127.8	126.8
Clothing, including overalls	132.4	132.3	129.0
Shoes	169.6	169.6	163.2
Infants' and children's wear—			
Socks	131.5	131.5	129.8
Underwear	120.8	120.8	119.7
Shoes	144.9	144.9	141.7
Furniture	150.7	151.1	148.6
Floor coverings	158.2	158.2	149.4
Radios	124.0	124.0	125.0
Luggage	131.1	131.1	128.0
Electrical household appliances	144.6	143.9	137.3
China	135.3	134.6	131.3

REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S.—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—Month of October (000's omitted):	Latest Month	Previous Month	Year Ago
Savings and Loan Associations	$292,651	$304,053	$339,991
Insurance companies	81,246	80,668	85,354
Banks and Trust Companies	212,192	212,374	276,103
Mutual Savings Banks	70,279	73,424	62,682
Individuals	183,537	185,407	185,221
Miscellaneous lending institutions	137,925	135,482	153,679
Total	$977,830	$991,408	$1,103,030

SELECTED INCOME TERMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) (Month of September):	Latest Month	Previous Month	Year Ago
Net railway operating income	$110,848,571	$115,709,718	$48,314,729
Other income	16,421,306	14,589,923	14,196,628
Total income	127,269,877	130,299,641	62,511,357
Miscellaneous deductions from income	5,524,505	4,749,457	3,295,215
Income available for fixed charges	121,745,372	125,550,184	59,216,142
Income after fixed charges	85,675,534	88,950,897	23,342,279
Other deductions	3,018,655	3,441,064	2,190,164
Net income	82,656,879	85,509,833	21,152,115
Depreciation (way & structures & equip.)	31,816,226	31,547,870	29,494,033
Amortization of defense projects	1,344,086	1,380,987	1,336,915
Federal income taxes	50,287,614	50,913,666	20,381,450
Dividend appropriations:			
On common stock	17,769,139	21,621,964	9,676,324
On preferred stock	2,935,405	4,318,935	1,189,238
Ratio of income to fixed charges	3.38	3.43	1.65

Management of the Public Debt

(Continued from first page)

the debt is managed has a direct bearing upon income distribution, changes in the volume of bank deposits, and day-to-day conditions in the money market.

In view of the complex nature of the subject, it is not surprising that widespread disagreement exists with regard to the objectives of debt management and the appropriate policies which should be followed to achieve these aims.

Although I shall not have time on this occasion to discuss all phases of debt management, I should like to touch upon six of the more important problems. These are the problems of debt reduction, the term structure of the debt, ownership distribution, the interest rate structure, credit control in relation to debt management and, finally, the administrative problems arising from the present division of responsibility among different government authorities.

The Problem of Debt Reduction

Since the end of the war our total Federal debt has been reduced from the peak of $280 billion reached in February of 1946, to the present figure of $252 billion. The bulk of the reduction of $22 billion, was accomplished by drawing down the very large working balance which the Treasury had on hand after the successful flotation of the Victory Loan. The remainder, $6 billion, is attributable to the budgetary surplus. Although tax rates were in general maintained until 1948, this budgetary surplus was not the result of a course of procedure carefully mapped out in advance by our fiscal authorities. It resulted every largely from the high level of national income, caused in part by the commodity price inflation which has existed since the end of the war. In spite of the continuance of this high level of national income, the budgetary surplus is now disappearing under the combined influence of the 1948 tax reduction and increased expenditures.

Ideally, retirements of the public debts should take place in periods of high-level business activity, when they will tend to restrain total expenditures in the private sectors of the economy and to offset the possible inflationary effects of private credit expansion.[1] In periods of depression, it will be difficult, and may well be undesirable, to accomplish any reduction in debt. However, over the long run, debt reduction is essential to inspire confidence in the credit of the government.[2]

Some students of the subject have attempted to set forth in mathematical terms the precise rate at which our debt should be reduced. One formula proposes that the debt be reduced at a constant annual rate; another, that debt reduction be proportioned to national income. In my opinion, it is impossible to devise any precise formula which should govern the rate of debt reduction. All that we can do is to be prepared to take the necessary budgetary action to retire in periods of prosperity the maximum amount of debt.

The Term Structure of the Marketable Debt

A second and immediate problem of debt management is the unbalanced term structure of our existing marketable debt. The marketable debt is characterized by a heavy concentration of short-term maturities and by an irregular maturity spacing of intermediate and long-term obligations. 31% or $49 billion, of the total outstanding marketable debt matures or is callable within one year. Sizable maturities, or call-date concentrations, occur in 1949, 1952, and in 1967. Unless maturity distribution is brought into better balance, the management of the debt will become increasingly difficult.

Since the end of the war, the Treasury has followed the policy of refunding the unredeemed portions of virtually all maturing issues into one-year obligations. During the past year, when the private demand for capital funds has been unusually strong, this policy may have been justified. However, if continued, this practice, together with the lapse of time, will result in a pronounced increase, both absolute and relative, in the short-term debt. Three years from now, if all options to call outstanding issues should be exercised on first call dates, the amount of government obligations due within one year will rise from about $49 to nearly $92 billion.

In the postwar period, the Treasury has avoided a relative increase in the floating debt because it has been able to redeem large amounts of maturing marketable obligations. The funds for this purpose were derived initially from the proceeds of the Victory Loan and later from the cash surplus and the sale of savings bonds and other non-marketable debt. The proceeds of the Victory Loan have long since been used and, unfortunately, the cash surplus threatens to disappear. In view of this fact, the Treasury's current efforts to increase the sale of savings bonds are praiseworthy. The sale of savings bonds permits short-term marketable debt to be funded and placed with non-bank investors. However, over the next few years, the concentration of debt maturities, including the savings bonds sold during the war, is such that, unless present policy is changed, the short-term marketable debt will continue to increase. The Treasury, therefore, must give consideration to the effects of the continued refunding of maturing or called issues into short-term obligations.

A certain proportion of the debt must, of course, be of a short-term character. The Treasury must borrow to some extent on a short-term basis in order to equalize seasonal differences between operating cash receipts and expenditures and to avoid carrying unnecessarily large working balances. Short-term government obligations are also required to satisfy the liquidity requirements of commercial banks and other investors. The amount of short-term debt required for these different purposes, however, is far less than that presently outstanding.

Any structural rearrangement of the debt necessarily involves conflicts of interest. From the point of view of the Treasury, a conflict arises between the advantage of deferring maturity dates as far as possible into the future and the resulting disadvantage of higher interest charges. From the point of view of investors, the advantage of a higher return on longer-term securities must be weighed against the risk of relatively wide fluctuations in market price.

The considerations I have already touched upon and those to which I shall later refer all lead to the conclusion that constructive policy requires that over the long run the term structure of the debt be lengthened. To carry out this process successfully will require important readjustments in the present structure and level of yields on government obligations. The determination of the interest rates which will best accomplish the necessary results will require from time to time the most careful consideration and reconsideration of the currently existing policies of the monetary authorities with regard to the maintenance of any particular level of prices for long-term government bonds.

The Ownership Distribution of the Debt

Closely allied to the problem of the term structure of the debt is the question of its ownership distribution.

In the long run, the aim of debt management should be that of reducing the holdings of the debt by the commercial banking system and of promoting broad investor ownership. The principal holders of the public debt should be institutional investors such as life insurance companies and savings banks, and individual investors. Business corporation, states and municipalities cannot be expected to be net buyers of the debt and future acquisitions by the agency and trust accounts of the government are contingent upon a variety of considerations. Widespread investor ownership means stable ownership. Sales or redemptions of government securities by one investor group are likely to be matched by the purchases of other groups.

The requirements of institutional and individual purchasers vary greatly, compounded as they are of such factors as liquidity, earning power and safety. The present unbalanced maturity structure of the public debt makes it difficult for investors to adjust their own portfolios in accordance with basic planning. The debt structure provides for revolving maturities only in the case of Treasury bills and certificates of indebtedness. Overall maturity spacing, which would facilitate the investment operations of major debt holders, is a means of achieving liquidity, irrespective of fluctuations in market price.

The Treasury, therefore, should endeavor to integrate the structure of the debt with the general pattern of institutional and private investment schedules and should plan to revolve the outstanding debt within this framework. Rates of interest and other terms, such as serial maturities, negotiability and special redemption features, could then be designed to fit the needs of special classes of investors, so that to the greatest extent possible the debt will be held by institutional and private investors and not by the commercial banking system. Precautions must necessarily be taken against allowing the special tailoring process to confront the Treasury with redemptions on a scale which would undermine the established debt structure.

This type of reorganization in the debt structure cannot be achieved easily or quickly. It will take a long period of time, serious thought and careful planning. A beginning should be made as soon as possible.

Interest Rate Structure

From what I have already said I am sure that you will have gathered that I believe that the goal of the monetary authorities should be to modify the policy of maintaining rigid support levels for Government bonds and to regain their freedom to determine from time to time what support, if any, is necessary to maintain an orderly market for Federal securities. More than two and one-half years ago, I expressed this thought by stating that the Federal Reserve Banks should not feel themselves bound to maintain an artificial level and structure of interest rates.[3]

Since that time there has been considerable discussion concerning the desirability of pegging the prices of Government obligations at present levels by the Federal Reserve System. The supporters of the existing policy declare that pegging operations are required to facilitate debt refinancing operations, to keep interest costs on the debt at a minimum, and to protect the economic system from the possible consequences of loss to the holders of marketable Government obligations when the debt is so large and so much of it is held by lending institutions. They have asserted further that the abandonment of the existing pegs at the present time, in combination with other factors, might result in plunging our economy into a depression and in causing wholesale encashment of non-marketable redeemable obligations.

These arguments minimize the functional role of interest rates in our economy. A flexible short- and long-term interest rate policy is an important factor, in a period of inflation, to encourage personal savings, to discourage the liquidation of Government securities by lending institutions, and to restrict excessive capital expenditures—in short, to control the volume and use of credit.

A flexible long-term interest rate policy will not, in my opinion, plunge our economy into depression nor provoke widespread redemption of savings bonds. Those who make the contrary assertions underestimate the basic strength of our economy and the willingness of the holders of the redemption issues to retain their obligations, many of which, with the passage of time, carry attractive yields to maturity.

It must always be remembered that the removal of existing rigid support prices, when undertaken, does not necessarily mean the abandonment of all intervention in the Government securities market. Monetary and fiscal authorities should consider themselves free at any time to intervene in the market to maintain orderly conditions. They should, however, correct any misapprehension investors may have that the prices of Government bonds will be supported indefinitely, either now or in the future, at any specific level.

Our monetary and fiscal authorities, too, have many means at their disposal to combat deflationary trends, if a recession should occur, before a situation develops which might lead to depression. We should take care not to have our psychological attitudes so conditioned by the events of the Great Depression that we are inhibited from making those constructive modifications in the interest rate structure which may be called for by future developments.

Concerning the idea that some sort of a commitment has been made by our monetary authorities, it is sufficient to point out that the authorities have no statutory power to make a contractual commitment to maintain the prices of marketable bonds at par. Those who declare that such a "commitment" has been given, base their belief on current policy declarations of the Federal Open Market Committee and on qualified and often ambiguous statements of various Government officials. These declarations and statements obviously cannot constitute a "commitment."

The Problem of Credit Control

The public debt underlies such a large part of the monetary and credit structure of the country that its management cannot be separated from the general problem of monetary and credit control. This circumstance makes essential a coordination of Treasury and Federal Reserve policy. The coordination should not be brought about, however, by the dominance of the one party or the other, but by a joint development of fiscal and monetary policy directed towards the long-run advantage of the economy.

Purchases of Government securities by the Reserve Banks have peculiar and important monetary effects. These purchases are made with the Reserve Banks' own credit—they are not conditional upon the antecedent receipt of funds from any outside source. The seller of securities is paid in effect with a check drawn by the Reserve Bank on itself. Member bank reserves, therefore, rise whenever the Federal Reserve Banks purchase securities no matter whether the securities are purchased from commercial banks, insurance companies, savings banks or individuals.

In order to maintain the level and structure of rates chosen for support, the Reserve Banks have had to absorb large amounts of Government obligations from commercial banks, insurance companies, and others needing funds with which to accommodate private borrowers or seeking to hedge against the possibility of changes in the level of support prices. In an effort to prevent these purchases from inflating member bank reserves, the Reserve Banks and the Treasury have undertaken three principal types of action.

First, they have applied a varying portion of the Treasury's cash operating surplus to the redemption of maturing securities held by the Reserve Banks, particularly of Treasury bills, thereby offsetting to a very large extent the increase in member bank reserves resulting from market support purchases. This use of the cash surplus is a necessary instrument of control as long as the Reserve Banks are absorbing securities from the market. As an instrument of control, however, it depends not only upon the existence of such a cash surplus, but also upon the availability of that surplus when needed. To some extent the availability of these funds can be controlled by means of the war loan depository system. However, only a portion of the funds used for debt retirement are now channelled through these accounts. In practice, neither tax revenues nor expenditures can always be controlled with sufficient precision to assure that a Treasury cash surplus will synchronize with the varying need to retire securities held by the Reserve Banks.[4]

Second, the monetary authorities have endeavored to offset the effect of support purchases by the Reserve Banks by upward adjustments in rates on short-term government obligations. Increases in short-term rates were initiated in the middle of 1947 in order to discourage investors from selling Treasury bills to the Federal Reserve Banks, which at that time had absorbed over 90% of the total outstanding. Later, increases in short-term rates were made to achieve a more viable rate level and, in consequence, to enable the Federal Reserve Banks to shift some of their holdings of short-term government securities to the private market. This became more and more necessary as the impending reduction of the Treasury surplus threatened to preclude further cash redemption of securities held by the Federal Reserve Banks.

Raising the reserve requirements of member banks has been the third device for offsetting the inflationary results of support purchases. Within the past year required reserves have been increased by roughly $3 billion. Increases in required reserves may actually complicate the problem of maintaining stable and orderly

(Continued on page 38)

1 As long as the Federal Reserve System continues in a period of inflation to give support to the Government securities market, it is imperative that the Treasury have a budgetary surplus which can be used to offset, at least in part, the monetary and credit effects of the support operations.

2 The economic implications of debt retirement are given emphasis in the *Report of the Committee on National Debt and Taxation* (Colwyn Report), London: His Majesty's Stationery Office, 1927.

3 The Control of Inflation, May 2, 1946.

4 This is a roundabout method of debt retirement which is not without certain disadvantages and limitations. The choice of securities to be retired is in the discretion of the market. Consequently, the authorities are unable to give proper consideration to the longer-range aspects of debt retirement such as the appropriate maturity structure of the debt and its ownership distribution.

Management of the Public Debt

(Continued from page 37)

conditions in the government securities market since they are imposed horizontally and without regard to the reserve positions of individual banks. In the case of the individual bank, if the increase in required reserves is greater than the amount necessary to sterilize the additional reserves created by support purchases, the bank in question will be forced to sell government obligations to its Reserve Bank. If the increase in required reserves is not large enough to bring about this result, the additional requirement will have little restraining effect. To the extent that individual banks are forced to sell government obligations, the market in government securities churns about and, after it has settled down, the impact and burden of the increased reserve requirement come to rest on the shoulders of the commercial banks to the exclusion of all other classes of lenders.

A certain degree of success in controlling credit has been claimed for the combined use of these three devices. Whatever success has been achieved so far by the program is to be attributed primarily to the use of the Treasury surplus in the retirement of securities held by the banking system. This surplus, a fortunate accident of circumstances, has been diminishing in amount and will probably disappear before long. Obviously, policies of monetary and credit control should not be left to the vicissitudes of our Federal budget.

Although significant increases in the quantity of money and credit have been avoided during the past year, the fact remains that there has been a large expansion in private debt. The real test of credit control is the degree to which it succeeds in restraining the expansion of private debt, particularly in the areas where a rising debt is associated with rising prices or is financing private expenditures at too rapid a rate. The ability of non-bank investors to sell government securities in a supported market to the Reserve Banks enables the private demand for capital to be met without regard to the rate at which personal savings are currently being accumulated.

The preoccupation of the monetary authorities with conditions in the government securities market and their reliance upon the Treasury's cash surplus have caused them to minimize the role of flexible interest rates in credit control. Revisions in interest rates have been confined mainly to short-term government obligations, and have been undertaken only after it became clearly evident that alternative lines of action might fail to reduce the absorption of securities by the Federal Reserve Banks. Unless the availability of credit is delimited by an upward adjustment in the structure of interest rates, other more drastic means to combat inflationary pressures may be proposed, such as the rationing of capital funds and the imposition of direct controls over the government security portfolios of our lending institutions. These are extreme measures which have no place in, and are destructive of, a free market.

Agencies of Debt Management

Finally, the development of a long-range program of debt management depends upon closely coordinated operations between the Bureau of the Budget, the United States Treasury, and the Federal Open Market Committee of the Federal Reserve System—the authorities most directly and immediately concerned with this problem.

In the preparation of the budget, the Bureau of the Budget should, when conditions permit, make definite provision for debt retirement. I fully realize the difficulties involved. Estimates of receipts, expenditures and the budgetary surplus may be affected not only by legislation but also by economic developments. However, I think it is highly important that budgetary surpluses available for debt retirement should not be an accidental residual but rather, in so far as possible, an integral part of budgetary planning.

Of necessity, Treasury operations respecting the reduction in total debt must be closely correlated with budgetary developments. But, in addition, the Treasury has extensive powers to modify the structure of the outstanding debt. Its powers in this respect are not confined solely to the redemption of issues at maturity. The Treasury has the power to purchase and retire securities before contractual maturity. For example, it may, under certain conditions, issue non-marketable debt to the public or to the trust accounts and retire marketable debt before maturity. Again, under certain conditions, it may purchase marketable debt on behalf of the various trust and special accounts. Furthermore, it may issue long-term marketable debt and retire short-term obligations or, conversely, it may issue short-term debt and retire long-term debt, purchased in the market. Its authority to do so arises in three different ways:

First, under an enactment of 1881, the Secretary of the Treasury may at any time apply the surplus money in the Treasury, not otherwise appropriated, to the purchase or redemption of United States bonds at any price above or below par, provided that the bonds so purchased or redeemed shall constitute no part of the Sinking Fund but shall be cancelled.

Second, under the laws governing the operation of the various trust and special accounts, the Treasury may purchase government obligations in the market above or below par subject to statutory requirements respecting investment yields. Under market conditions in recent years, the purchase of long-term marketable bonds has been confined mainly to the Federal Old Age and Survivors Insurance Trust Fund and to the Unemployment Trust Fund. Whenever the funds belonging to any one of the various trust accounts are invested in special obligations, cash is released to the General Fund, which can then be used to redeem marketable obligations at par.

Third, the Treasury may purchase or redeem securities as provided by the legislation of 1919, as amended, governing the Cumulative Sinking Fund. For the account of the Sinking Fund, the Treasury may purchase bonds and notes before maturity provided that the average cost of all bonds and notes does not exceed par and provided these obligations are cancelled. Because of these limitations, debt redemption since the end of the war has not been charged against the Sinking Fund.

In reality, the Sinking Fund is not a fund but simply an accounting device by which debt redemptions may be charged against the budget as current expenditures, whether or not the total marketable debt held by the public is actually reduced. Only if the Treasury has a budgetary surplus can the total Federal debt be reduced. The Sinking Fund, as now constituted, makes no provision for raising funds with which to retire debt.

The third agency of debt management is the Federal Open Market Committee. In its operation this Committee is now guided by the criterion that purchases and sales of open-market securities "shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation in the country."[5]

The quantitative limit upon open-market purchases is the gold certificate reserve requirement respecting Federal Reserve notes and deposits. The Open Market Committee has complete freedom respecting the maturity of the obligations purchased in the open market and the price paid for such obligations. Securities purchased cannot, of course, be cancelled, but continue to constitute part of the total Federal debt and can be resold to the market.

The development of long-range policies of debt management depends not only upon intelligent and constructive cooperation between the Bureau of the Budget, the United States Treasury and the Federal Open Market Committee, but also upon a careful consideration and review of their individual and interrelated powers and responsibilities.

Conclusion

In the course of my remarks I have endeavored to call attention to six basic problems involved in the development of a constructive program of debt management. These are the problems of debt reduction, the term structure of the debt, the ownership distribution of the debt, the interest rate structure of the debt, monetary and credit control in relation to debt management and, finally, the administrative problems arising from the division of responsibility among various government authorities.

Debt management is never passive. Positive policies must be adopted. These policies, which will have important repercussions upon the entire economy, must of necessity be based upon agreement concerning the objectives of debt management. Some look upon the management of the debt as a means of controlling interest rates, others as a means of reducing the amplitude of cyclical fluctuations, others as a means of preserving the credit of the government. These objectives cannot all be completely reconciled and consequently need to be studied in their many ramifications.

Some months ago, on another occasion, I urged the establishment of a commission consisting not only of members of Congress but also of recognized authorities drawn from outside the government to study and report upon the changes needed in our monetary and banking legislation.[6] This commission, if established, could very appropriately make a comprehensive study of the problem of debt management, which concerns not only monetary and credit policy but all phases of our economic life. If such a commission were established it should not be expected to report immediately. The importance of the subject matter requires exhaustive study and analysis. Extensive hearings should be held and the aid of experts enlisted in order to present to the American people comprehensive and objective findings on this most important topic.

In the course of my remarks I have expressed opinions regarding some aspects of the policies adopted by our fiscal and monetary authorities. I fully appreciate the difficulties under which they have labored. They have been compelled to evolve policies in an environment of acute international political tension. We are no longer at war but we must remember that we have not yet attained peace. Their task is a most complex and delicate one and they deserve our complete and sympathetic understanding in their efforts to carry it out.

5 Section 12A, Federal Reserve Act.

6 *Economic Significance of Postwar Changes in Commercial Bank Portfolios,* June 14, 1948.

Trends in Insurance Investments

(Continued from page 6)

increased their holdings of mortgage loans and real estate by over $1.8 billion, those of public utility bonds by over $1.5 billion, and those of industrial and miscellaneous bonds by over $2.5 billion. Municipal, Canadian Government, and railroad bonds and stocks, went up by $384 million in the same period. The sum total of these increases, amounting to over $6.2 billion, was just twice as great as the $3.1 billion increase in admitted assets which the companies experienced during this 12 months. The difference was made up by net sales of U. S. Government bonds, mostly of the long-term variety, totaling over $3.3 billion; and this represented a decline of 18% in the U. S. Government bondholdings of these companies in the single year 1948.

It has been stated that such sale of government bonds on the part of the life insurance companies and the reinvestment in other types of securities has been inflationary. This is no doubt true. It is also true that if this investment substitution had not taken place, marked credit stringency would have been felt by large sections of industry which normally look to the life insurance companies for a major part of their capital—the utility industry, whose capital requirements come close to being an economic must, being a notable example. For during this period, in spite of this action on the part of the life companies, money rates on investments other than on U. S. Government bonds rose sharply. The underlying fact seems to be that at this time our economy is trying to invest more funds than our people are choosing to save. What the correct remedy for this should be lies hardly within the scope of this paper.

Restrictions on Life Insurance Investment Media

By law and tradition the investments of life insurance companies have in the past been limited almost entirely to senior securities, which are very largely evidences of debt. In other words, their investment has been pretty well restricted to bonds and real estate mortgages.

There have been a number of reasons for this. Probably the most fundamental one is the fact that life insurance assets have traditionally been regarded as trust funds, and their investment in the most senior and secure investment media has therefore seemed proper.

On the more technical side, the mathematical calculation of life insurance reserves assumes a fixed but certain rate of return and it has seemed proper that these reserves should be backed by assets which appear best able to assure this type of return. The other side of the coin is that since life insurance contracts are payable strictly in dollars there has been no direct and tangible pressure on the companies to attempt to maintain the purchasing power of life insurance proceeds against a shrinkage in the value of the dollar.

The above considerations have resulted in laws which in most important states specify that life insurance funds, aside from a certain limited proportion thereof, should be invested only in evidences of debt. For example, companies domiciled in New York State, which hold about 60% of the total assets of the industry, are permitted no investment in common stocks.

A powerful factor which has colored the thinking of both lawmakers and life insurance managers, especialy those of the largest companies, is the fear that the life companies, if they were permitted to invest in common stocks, might find themselves in control of other corporations. The management problems and political repercussions which might result from such an eventuality have proved strong deterrents to any desire to press for permission to invest in common stocks. Such fears have probably been intensified by insinuations that certain features of privately negotiated loans tend to inject life insurance lenders too far into the management of borrowing companies.

It may be stated in general that the standard accounting practices of life insurance companies, which have become largely frozen into law, favor investment in bonds and mortgages and discourage investment in equities. While satisfactorily secured bonds and mortgages may be carried at cost or amortized values, stocks, both preferred and common, must be carried at current market value. This tends to limit equity investments to a low percentage of assets because of the possible effect on a company's surplus of a serious decline in stock market prices. This in turn would tend to produce wide fluctuations in the regularity of dividend payments. In the case of few life companies does free surplus exceed 10% of total assets; and if any large proportion of those assets were stocks, the effect on that surplus of a serious decline in stock prices is obvious. As a practical matter therefore life company investment in stocks seldom exceeds about 5% of the assets of an individual company, even when the law permits a higher proportion.

Because of the quite rigid manner to which the liabilities of a life insurance company are calculated in this country, and also because these liabilities are strictly dollar liabilities, security of principal, expressed in dollars, and reliability of dollar rate of return are more important considerations than the chance for capital appreciation. Also because of the manner in which life insurance companies are taxed, tax exemption of income is of very little value to them, except insofar as it may enable them to sell out later on advantageous terms to those to whom such exemption has real value. In this respect their position has come to differ radically from that of individuals in high income tax brackets, to whom tax exemption, or the chance to substitute a capital gains tax for the regular income tax, are prime considerations.

The position of life companies with respect to tax exemption of securities is considerably different from that of the commercial banks, whose earnings are taxed on the same basis as those of corporations in general.

Because of these factors life companies are mainly buyers of types of securities which have largely lost their appeal to individuals, namely, corporate bonds and mortgages. While there is some overlapping of interest between life companies and the commercial banks, in general their requirements are different. Banks, to provide backing for their demand liabilities, invest largely in short-term securities; while life companies, because of the continuous growth of their assets, which was unbroken even in the worst depression years, and their large and comparatively reliable cash inflow, do not in general feel a pressing need to sacrifice rate of return for liquidity.

As a result of these considerations, and also because of the large proportion of total individual savings which accrue to them, the life insurance companies have become the most important source of long-term capital in this coun-

try of the type which is interested primarily in security of principal and sureness of rate of return.

The Problem of Equity Financing

To what extent are life insurance investment practices and those of other financial institutions responsible for the current difficulty on the part of business and industry in raising equity as compared with debt capital? No exact answer to this question is possible here although circumstantial evidence points to some connection between the two. When a life insurance company buys the 30-year bonds of a utility, which contain little provision for amortization, to yield it 3¼%, while the common stock of that utility sells on an apparently well protected yield basis of 6½%, or even considerably more, it seems safe to assume that if the life insurance company felt as free to buy the stock as the bonds, the two yields would be equalized, to some extent at least, and the utility would find it possible to raise equity capital on a relatively more advantageous basis.

A striking example of the influence of the life companies on capital raising practices is provided by the experience of the natural gas pipe line companies. These are large enterprises, sometimes starting from scratch and having to raise a very large amount of capital in a short time. However, they have the advantage of being able to calculate their future earning power with considerable accuracy and so are able to sell bonds readily to institutional investors. They have been taking advantage of this fact to raise as much as three-fourths, or even more, of their total capital requirements by the sale of bonds, almost entirely to life insurance companies. The sale of the relatively small amount of equity capital necessary to cushion the bonds has frequently proved much more of a problem than the sale of the bonds.

The electric and telephone industries also have in general had no great difficulty in raising that part of their capital requirements which can be done through the sale of mortgage bonds and debentures, although even the cost of this type of money is going up. Their real problem, and it is a tough one, is in selling enough equity securities to keep their capital structure in balance in a period when their new capital requirements are very great.

The very large volume of industrial bond financing, which in the last three years has gone very largely to life insurance companies by the private route, again attests the relative ease and cheapness of raising money by sale of bonds to life insurance companies as compared with other possible types of financing.

All this of course is just one side of the picture — that which comes to light during a period of heavy capital demand. The other side, which is also familiar to the life insurance companies, was the difficulty experienced during former years of low capital demand of finding sufficient suitable debt media in which to invest. However the effect on a private enterprise system, to which equity capital is the life blood, of a situation wherein too large a proportion of the nation's savings is forced to seek investment in debt media cannot in the long run be a healthy one.

That it is possible for experienced institutional investors to put a substantial proportion of their funds into equity types of securities is indicated by the success of the British life insurance companies in doing so over a long period of time.

Requirements for Equity Investment

The question is posed, "Then what steps are necessary to permit a larger proportion of life insurance and other institutional funds to seek investment in equities?" From the foregoing the following seem to be among the more obvious of such steps.

In the first place it would be necessary to amend certain state laws, particularly those of the State of New York, to permit a moderate investment by life insurance companies in common stocks. This could be accomplished in New York by permitting investment in common stocks within the 10% of assets limit now reserved exclusively for preferred and guaranteed stocks, or this limit might even be increased to 15%. To prevent a life insurance company exercising control of management, it might be provided that no life insurance company could own over 10% of the voting stock of another corporation held as an investment.

However such legal permission alone would not open the way if some formula of valuation is not devised to remove the threat of sudden large fluctuations in surplus. One such formula advanced two or three years ago by representatives of the life insurance industry, involved limiting the write-down of stocks in any one year to one-fifth the difference between their book value at the end of the preceding year and their current market value. This shock-absorbing device was suggested only for preferred stocks meeting certain quality standards. However there seems no good reason why it should not be applied more broadly. Unfortunately this, or any other such formula, has not made notable progress in receiving acceptance by the regulatory authorities.

Also if stocks, particularly common stocks, are to constitute any considerable proportion of life company portfolios, it would probably be desirable for such companies to carry more free surplus in relation to assets than has been cutomary for some of them to carry in recent years. This also might involve changes in the present New York law.

At the present time with rising interest rates on bonds and mortgages and a seeming plentitude of investment outlets in these traditional fields, it is not primarily the investment requirements of the institutional investors which call for an exploration of this matter of equity investment. On the other hand, after experiencing years of declining interest rates and shrinking investment outlets, these investors are moderately well satisfied with the current investment picture. However one must still give consideration to the broader capital requirements of the economy as a whole and the desirability of achieving a proper balance between debt and equity financing.

In conclusion, it may be stated that a few life insurance companies have, where state laws permitted, modestly increased their common stockholdings in recent years. Others, including the largest ones, have made investments in commercial and residential real estate which, since they own the properties outright, constitute equity investments, there being no junior investment capital in the picture to cushion their holdings.

Business Will Soon Move Down!

(Continued from page 8)

kind tells us that "through education socialism can be made manifest to an increasing number of people." And our socialist friends are right; getting over ideas, making anything manifest, is fundamentally a process of education.

The suggestion I shall presume to make from here on out is that we need to make business more manifest to an increasing number of people; get over to them in a practical down-to-earth way a few simple facts about business and the unique economy we call "American." Not classroom education, though it is needed there; rather an informal program of information and interpretation that will reveal to the average man and woman you meet just what business and certain elements in our economy means to them.

Someone said to me the other day that economics is not for understanding by the average man and woman. Well, if the majority who vote in this country are not economists in their own modest way the future is dark indeed, because the major issues up for decision now are more economic than political.

My program is that you are to become "teachers"—of groups—of the men and women you meet socially and in business—of those you meet on Main Street.

First and foremost teach the national importance of profitable business operations. Misleading men in positions of leadership in government have taught a whole generation — 40 million — derogatory things about the American business system. We read this morning that the President of the United States is "mad at business." But down underneath the President knows and the majority of our people should know that the hope for our future and for the world lies in profitable business operations. Trade and commerce is the central force of our society, the single organism on which the nation lives. And this nation or any other nation cannot be any stronger than the industry that supports it. Anything else is either culpable economic ignorance or just plain political demagogery.

Teach Profit

Teach profit and be certain to get the average man and woman straight on who benefits most from the profit business earns.

Academic and intellectual personalities and political orators who sneer at profit do great damage to our productive destiny, which is the only way to future progress. And the reason why this is so is not difficult to understand: since the extraction of profit depends upon efficiency and since the pattern of high-profit efficiency rests upon low cost, low price, wider distribution and greater production, clearly it is the search for profits under competitive conditions that results in more things for more people, and more jobs.

The profitless business is a social enemy, a labor tyrant, a destroyer of trade and commerce.

A great many in your community no doubt hold the belief that profit goes to the enrichment of big business: a few Chairmen of the Board, Presidents, Vice-Presidents, and stockholders. Not so: the figures for 1948 are not in but in 1947 American corporations actually earned less than they earned in 1929—6.1% on sales in 1929 and 5.1% in 1947. It is true there have been large increases in wage rates and in taxes over 1929, but there has been no increase in profits. The stockholders? The percentage of profit paid to stockholders in 1947 was the smallest in 19 years.

Teach Capital

Teach capital—its economic significance in terms of the average man and women.

You can be certain that numerous people in your community think that capital is money held in the bank by capitalists, or that capital is "Wall Street"—some exclusive part of our economy working at odds with "labor"—because the air is filled with loose phrases like "the conflict between capital and labor." This is a dangerous public attitude when it finds expression in policies of government that discourage and limit the accumulation of capital.

Contrary to what so many believe; explain that capital is not money. Even George Bernard Shaw, who is a socialist in everything except the collection of royalties, recently warned England against capital levies for the reason that, as Mr. Shaw said, "There is no free fund of capital in the investment sense." For once, at least, George Bernard is correct. In the textbook definition, capital is "produced goods devoted to the production of other goods." Put more concretely capital is the hammer the blacksmith saved money to buy in order to do a better job; the plow, the harvester, the farmer owns; the plant and equipment, the tools of production in primary industries and in manufacturing; the capital goods used in transportation and in marketing.

Be sure to explain the source of this capital, the average man you meet may not know that he is a capitalist.

The single source of capital is saving: the savings of those with a little better-than-average income, a few with large incomes; the savings of millions of people in the form of life insurance policies, annuities, money in the bank; the savings of business, the profits we discussed which appear in published reports as "additions to surplus" but which is profit withheld from owners of the business to provide for growth, to be invested in the plant and tools of production we have just mentioned, for larger and cheaper production.

Who benefits most from capital investments? Arguments and statistics about ownership of capital are faulty and misleading; they show only permanent, fixed-property amounts, leaving out of the calculation entirely the sum of the immense flow of goods and services that broaden the lives and minister to the daily wants of all the people—goods and services that invested capital make possible.

The difference between American standards of living and the proverbial poverty of primitive people, the poverty of the industrially backward people of the world, is capital, plus the initiative, enterprise and leadership to employ it.

But I must rush on to a conclusion—we have two more very important lessons in the teaching program I am presuming to suggest. I shall be brief.

Teach Price

Teach price—things that make prices go up.

Our whole economy is bound together by a system of prices and it is through the adjustment of prices that the productive energies of the country are organized. Yet I am sure there are a number of people in your community without accurate knowledge of fundamental causes back of price movements who go to the polls and support policies in government that measurably influence prices.

Explain to those people that prices must and ultimately do reflect every human and economic force. Every human force—strikes, slow-downs, inefficiencies. Every economic force—the debasement of currency by methods of devaluation or by fiscal inflation resulting in deficit financing on the part of the Federal Government.

And with our economy ridden by taxes and plans for more taxes riding high, explain that all taxes paid by business are reflected in price in some way: either directly by additions to price, or indirectly by taking away from the low-cost, efficient business—the high-cost, unprofitable business pays no income tax—funds that would probably be used to increase production and inventories, the antidote for inflation.

But so as not to confuse the average man, stick to what business taxes do to price; this can be easily understood.

In estimating reasonable returns on business operations all business tax has to be calculated as a cost, otherwise business could not survive. Various property taxes, sales taxes — the average consumer knows these are reflected in price. But there is a rather wide misunderstanding about who pays the huge income taxes government is levying against business. Inasmuch as they are a levy on business earnings a lot of people think they are paid out of business profits. Without getting into the economics of taxation we know that, indirectly, high business tax is coming out of high prices, because, while profits are below 1929, as we said, business profit is good. And I hasten to emphasize and make specific again that there is no other way, if a business is to survive and prosper: business is not being selfish or greedy in passing taxes along in price.

In their ultimate effect, then, all business tax becomes a sales tax which percentage-wise rests upon bread and milk and diamonds and furs alike. Important, too, taxes add on at all levels of business; the tax on one product enters into the cost of production of another. Before selling price is established shoes contain 126 taxes, milk 78, overalls 148, gasoline 201.

Teach What Money Is

As a final lesson, I suggest money—teach what money is not!

Teach the lesson all history teaches about governments that followed false theories of money to economic ruin: ideas that a government can pass out money to people without having to take it from them in some way. Throughout all history this has been a cruel hoax of politicians to fool people who did not think.

Money is not wealth. Wealth is in goods produced, and sound money non - inflationary money, can therefore increase in supply only out of increased production. And except as given in charity there is no sound way to distribute money other than by payment for products, or for wages and services incidental to production and distribution. Money thus used is a facility of trade and commerce a facility for production; the antithesis of inflation; and it is not inflationary, because it is retired by the natural course of trade. Conversely, when new money is created by government for financing non-productive expenditures, the relationship between the needs of trade and the volume of currency is lost; and every dollar of such money is inflationary.

There is no way to keep productive dollars and non-productive dollars separated in the currency stream; the whole stream is diluted.

At a time when plans for enormous spending of non-productive money by government are going the rounds and getting favorable legislative attention, there is need for a better understanding of money. What it is. What it isn't. Its force and its potential danger when over a period of time new money is increased in excess of growth in production.

There has been a real growth in our economy since 1940. Estimates show production up 50% real income up 50%. However, this does not contradict our prediction of reaction and adjustment. There is a considerable amount of artificial growth above the real; and, important as a future force in our economy, when a reaction comes the Federal Government is not going to be able to collect $40 to $45 billion annually in tax, at anything like present rates. Still higher rates would discourage enterprise and dry up

(Continued on page 40)

Business Will Soon Move Down!

(Continued from page 39)

the sources of tax; a high tax rate does not necessarily produce high taxes.

The potential danger of money? Should Federal spending be continued at a level above tax income and result in a progressive increase in public debt—more fiscal inflation to pull currency down—the future would be dark In his Second Report on the Public Credit. Alexander Hamilton said in speaking of a progressively increasing public debt: "It is not easy to conceive of anything more likely than this to lead to great and convulsive revolutions of Empire."

But this will not happen if the majority of those who vote in this country understand what money is, what it is not!

The future will be what men think.

The future of America is the future of the historically basic American economy of private, competitive enterprise that has justified itself by the most splendid material accomplishment the world has ever known. However, that future is safe only if a majority of men and women in this country know, can think right, on principles that run through our economic life and have the understanding courage to defend them.

To help the majority understand is our job. Let's work at it!

The Future of Textiles

(Continued from page 13)

(Prosperity not written with capital letters, but Caution very much so.)

(1) Raw Materials—Prosperity in a business line is never secured where there is an over-abundance of raw materials. We have harvested this year the largest cotton crop since the record crop in 1937, and no matter what we may do, we will have the old picture of large cotton stores in government hands again. In rayon, the capacity of the mills is ample for the present demand. It is true that the support prices for cotton and wool will be maintained, but there are no supports for other textile materials and none abroad. We will export our raw cotton below the domestic price, but this dumping will favor our competitors.

(2) Decreasing Prices for Processed Goods—Prices for yarn, gray goods have gone down. So has the mill margin of the textile plants. The prices for some types of yarn have been about 15% below the OPA levels. For 80 square print cloth, prices are below the OPA level, but the OPA price was based on a higher (39 cent) than the present price for raw cotton. Class A sheetings are more than 10% under the OPA price.

Last year, I showed you a table headlined "The Romance of the Mill Margin." (See Table III.) It was indeed a beautiful picture. The mill margin [1] which had been 16 cents in 1926 and 9 cents in 1939, had risen to 64.7 cents in December, 1947. It is now down to about 40 cents. Support price or not—for the processed commodities, there is no support level. Men's wear worsted fabrics have just lost 2 to 5%, while raw wool prices are going up.

(3) Exports Are Definitely Shrinking—Last year the cotton industry exported 1½ billion yards. This year, they certainly will not export half of it. The reasons for this changed condition is that:

(a) The first hunger for textiles has subsided, even abroad.

(b) Import restrictions have become still sharper, because the shortage of dollars abroad is growing, in the countries outside the Marshall Plan and within.

(c) The textile industries abroad have recovered, partly with our help. This has happened to an astonishing degree in Western Europe, including Germany, Italy, and in Japan, and last but not least India.

Our industry is afraid that the ITO (International Trade Organization) will make conditions more difficult by facilitating imports of textiles, though I do not expect much action in that direction.

(4) Domestic Business — Domestic consumption will almost certainly not increase. The Department of Agriculture anticipates a reduction of cotton consumption for domestic use by somewhat more than 3% as compared with last year. I think we may be happy if the general decrease in textile volume will not be greater. The detailed figures of the department stores show where the weak points are. (See Table IV.) The replenishment to make up for under-consumption during the war, at least in men's apparel, has evidently reached its end. Men's and boys' wear in all larger stores have much lower sales figures than last year, and as the prices are at least not higher, unit sales must be down by about 15%. Women's and misses' apparel, on the other hand, are still holding their own. Everywhere textiles are encountering serious competition from durable goods.

Since the volume of textile business, as a whole, is scheduled to go down somewhat, the profit surely cannot be maintained unless a new inflationary movement were to intervene. This, for the time being, is not probable.

The industry reports that profits have been shrinking throughout 1948. There is little prospect that they can recover in 1949. Wages have risen constantly during the past years, but prices also have risen. It will be different with the fourth round of wages. (See Table V on wages.)

This will hit the textile business from two angles: First, in the textile factories: The labor unions in this industry are at this moment claiming an additional wage increase of 10 cents an hour, or an increase of about 8 to 9% over the present hourly wage rate. This would increase total costs of production by 2 to 2½% of the sales price. The garment industry, moreover, may be the area where higher minimum wages will increases costs I have been informed that in New York the minimum wages paid by many garment manufacturers are now about 58 cents, and in the South much less. If the minimum wage is raised to 75 cents, which, as it has been promised by the President, is practically certain to occur, this will additionally increase costs. This would not be so bad if increased sales volume or improved productivity of labor were to come to the aid of business. I'm hoping for this help, but I certainly cannot promise much.[2]

These devils are the so-to-say natural ones against which I think I should warn and arm you. The next devil is the threat of **government intervention.** You have heard and read the ups and downs of opinion during the last days, and, therefore, it might be useful to explain what I think you may have to expect in the next six to seven months and perhaps somewhat later.

IV
Which Main Kinds of Government Intervention?

Excess-Profits Taxes

If my analysis of "relativity of prosperity" should be correct, the textile business should not have to fear too much from the excess-profits tax even if it should come about. Bernard M. Baruch recommended an excess-profits tax to Congress last July, but at half the rate of the wartime tax. Now, it is my conviction that the fiscal year 1949 in which we are at present, will have no real Federal deficit. I'm very doubtful if the fiscal year 1950 will have a serious deficit, unless the military expenses should be very much higher than now envisaged. There seems, however, to be something like a psychological necessity to levy some special additional tax on business. This will perhaps be in the form of an increase of income taxes on corporations.

Price Controls

They have been promised and something will be done, because this item was so much in the foreground of the Presidential election campaign. What will be done may occur in the following consecutive stages.

(1) When Congress reconvenes, it will find a draft with vague **stand-by powers for the President** to impose price controls, rationing and allocation. Maybe, this power may be shared by a Congressional committee. As long as prices are not going sharply up, the only next step will be—

(2) that the President will almost certainly **appoint a price administrator.** He already showed his intentions when he sent Mr. Paul Porter to Congress last August to defend his price control proposals.

The Voluntary Agreement Period

This price administrator will limit himself to trying to prohibit price increases and to bring about price decreases by **voluntary agreement.** The pattern was set by Leon Henderson in the very first period of the defense economy, 1941 to February, 1942, and later in January, 1948, when some compulsion was enacted to enforce such voluntary agreements. The price administrator will try to reduce some prices by such agreements in the way, for example, of the present attempt to reduce the milk price in New York. The next item may perhaps be the bread price, because flour went down and bread did not, and the President had made a great point of that in his campaign. Another objective will certainly be the so-called **gray markets** in metals and in automobiles, which, as it seems, is dwindling anyway.

(3) The next much more difficult step will be to prohibit price increases in the so-called "administered industries" [3] which might follow wage increases. The administrator will either try to prohibit them, or certainly to mitigate their size. I venture to predict that the steel industry, coal mining industry and some others, perhaps also the automobile industry, will be the subject of very careful consideration by the price administrator after agreeing to the next rise in wages.

(4) I add that the Department of Agriculture is greatly interested in low distribution margins. The food industry and trade generally might be subject to similar discussions.

Where these actions are not sufficient in the eyes of the President, there are two ways open: The one is to make **individual maximum prices for individual commodities, selective price fixing,** the so-called "Hammurabi-Henderson system"; the other to consider an overall price fixing which evidently cannot be done without an overall wage fixing, the "Baruch system." This was evidently meant by Professor Nourse when he warned the Armed Forces the other day not to ask for too much. However, I really do not expect that anything of such a radical nature will be considered, unless a war-like situation should intervene, which I don't expect to happen.

Export and import policy will be tightened: The exports by controls and subsidies for farmers; the imports as a means of reducing the deficit in foreign trade and very possibly of reducing domestic prices.

V
Which Policy to Follow for the Textile Business?

Which policy is to be recommended to a businessman who wants to bring his business over the hump of a restabilization economy?

(1) For a part of business, the device should be to **go back more energetically to the cheaper-priced commodities.** This should be done during the readjustment period. It will help to maintain business volume, which means at least full use of over-head costs and it will greatly help the "weaker quarter of the nation."

(2) It will be necessary to look at **costs much more carefully** than during the last year. The wonderful time of cost-plus or of margins which became the more profitable the more the purchasing prices rose is, I think, over. **We** need the sharpest control of the relation between input and output, and the best means is the comparison between as many businesses as possible as to cost and performance, not only in money but in real units handled.

(3) **Liquidity** should soon receive preference over **profitability.** There is, in fact, no abundance of capital in the American economy. Per unit of output or sales, we have less credit and capital available than in 1939. This is only beclouded by accounting, which is right according to the tax laws, but wrong according to the laws of business. The depreciation rates, namely, are in most cases too low. It may cost you 200% to build anew, while the depreciation admitted by the Treasury may give you 100% at best.

Inventories are too much in the foreground of the discussions. Nevertheless, they have grown during the last year also in units, and there may have already developed dangerous soft spots.

(4) **Spread the risk** where you can. The risk is increasing, especially also because the changes of style are regaining the prewar pace. The converter will be more welcome again to those who were eager to eliminate this group.

(5) **Your selling policy.** Here two different trends will certainly develop:

For higher income brackets, the device will be **back to greater individual services.** Her miserability, the consumer, will very soon be her majesty again.

With the quick expansion of the five-day week, there will be a great **increase of leisure time in the nation.** That will certainly give new opportunities and some new forms of trade.

For the low-income brackets, we must look forward not only to low-cost commodities, but perhaps more than that to **low-cost distribution.** Whatever we may say about "necessary costs," the lower income brackets are feeling more and more the discrepancy between decreasing production costs per unit and the rising distribution of costs. They resent paying 55 to 60% and more only for distribution.

The U. S. Department of Agriculture has started a long-term campaign against too high distribution costs, trying hard to reduce the costs in food distribution. Some new ventures have been tried out in Switzerland and Sweden. The most needed ingenuity may be that for new ideas in reducing distribution costs.

TABLE I

Gross National Production
(in billions of dollars)

Year	Current Dollars	1939 Dollars
1929	101	87
1933	56	60
1939	92	92
1946	210	130
1947	230	148
1948*	245	148
1948‡	250	150.5

*First half. ‡Estimate.

Derived from chart on page 329 of "Inflation Control, Extract from Hearings before the Committee on Banking and Currency, U. S. Senate, 80th Congress, Second Session on Control of Inflation." (Inflation: Dangers and Remedies by Leon H. Keyserling, August 4, 1948), completed for the whole year 1948.

TABLE II

Changes in the Nations Purchasing Power
(At yearly rate during 1948—in billion dollars)

Inflationary Additions Through		Deflationary Decreases In	
		Exports	3
3rd & 4th round of wages	8 - 9	Replenishment of non-farm consumers	3 - 4
Armaments & foreign aid (supposing a defense limit of $15 billion)	4 - 5	Business investment (excluding farms)	3 - 4
		Farmers' expenditures	1½
More imports	1	Increase in production by better productivity—2% per annum	5
	13 - 15		15½-17½

TABLE III

The Vanishing "Romance of the Mill Margin"
(in cents)

1926	16.03
1929	13.3
1932	9.43
1933	10.
1936	12.5
1937	16.59
1938	12.15
1939	10.5
1940	17.5
1941	16.1
1942	20.5
1943	20.8
1944	20.3
1945	20.42
1946	25.
1947—	
September	60.05
December	64.70
1948—	
March	58.26
June	45.34
September	41.76

TABLE IV

Department Stores (Main Store) Sales

	Sept. 1948	9 Mos. 1948
Piece goods & H'sehold Textiles	+ 2	+ 4
Small Wares	— 2	+ 2
Women's & Misses' Apparel	+ 7	+ 6
Men's & Boys' Wear	— 8	— 2
Housefurnishings	+ 7	+ 9
Neckwear & Scarfs	—11	+ 1

TABLE V

Cotton Manufacturing

	Hourly Earnings (in cents)	Average Hours Per Wk.
1914 (July)	17.6	53.0
1920	52.9	49.2
1929	42.0	50.2
1932	33.0	36.4
1939	49.0	38.6
1946	95.0	40.7
1947 (July)	105.0	40.2
1948 (July)	111.0	38.6

1 U. S. Bureau of Agriculture defined this so:
Cotton prices average for 10 markets, cloth prices for 17 constructions of unfinished cloth; prices per yard converted to approximate quantity obtainable from a pound of cotton.

2 U. S. Department of Labor's Productivity figures in textile factories do not show serious improvements.

3 These are the large industries where a small group of corporations handles the bulk of business, like steel, chemicals, oil, etc. "It is easy to administer the administrators," said a former Assistant Price Administrator.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Affiliated Gas Equipment, Inc., Cleveland, O.
Dec. 6 filed 40,000 shares of $3 cumulative preferred stock (par $50) and 1,000,000 shares common stock (par $1). **Underwriter**—Reynolds & Co., New York. **Purpose**—To purchase all of the assets of three subsidiaries of Dresser Industries, Inc., viz: Bryant Heater Co., Cleveland; Day & Night Manufacturing Co., Monrovia, Calif. and Payne Furnace Co., Beverly Hills, Calif. [Affiliated will obtain an additional $4,000,000 the private sale of 15-year 3¾% notes to insurance companies.] Expected early in January.

● **Air-Walls, Inc., Seattle, Wash.**
Dec. 23 (letter of notification) 40,000 shares of class A capital stock (par $1). Price, par. No underwriter. To purchase equipment and acquire site for plant.

● **Buzza-Cardozo, Los Angeles, Calif.**
Dec. 20 (letter of notification) 1,000 shares of preferred series two. **Price**—$100 per share. No underwriter. For additional working capital.

● **Cenco Corp., New York, N. Y.**
Dec. 23 filed $846,400 5%, 10-year debentures and 846,400 shares ($1 par) common stock. **Offering**—These securities were sold by the company last September to 135 persons. This is an offer of recession, permitting original purchases to cancel their subscriptions and receive the amount paid, as the SEC has decided the transaction was not exempt from the registration requirements of the Securities Act of 1933.

Central Maine Power Co.
Nov. 1 filed 303,330 shares ($10 par) common stock. **Offering**—Company proposes to offer the stock to its stockholders for subscription for a period of approximately 30 days on the following basis: For each two shares of common, right to subscribe for one share of common; for each share of 6% preferred, right to subscribe for one share of common; for each two shares of preferred, 3.50% series, right to subscribe for one share of common stock; and subject to the foregoing rights and subject to allocation, the right to subscribe for any number of shares of common stock which any stockholder of the applicant may desire to purchase. New England Public Service Co., owner of 77.8% of presently outstanding common stock, has waived its preemptive right to subscribe for 232,076 of the 303,330 shares of common stock to be issued, on condition that such shares be made available for subscription by all stockholders on the foregoing basis. **Underwriting**—Stock will not be underwritten. Any shares not subscribed for by stockholders will be disposed of in a manner to be determined after the close of the subscription period. Company proposes to enter into a contract with an investment banker or security dealer to act as manager in the solicitation of subscriptions for the proposed issue. **Proceeds**—The net proceeds are to be used to reduce outstanding short-term notes payable to First National Bank, Boston, the proceeds of which were used for the acquisition of property, construction, completion and extension of facilities, and other lawful purposes.

● **Consolidated Edison Co. of New York, Inc.**
Dec. 29 filed $50,000,000 first and refunding mortgage bonds, series E, due Jan. 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. and The First Boston Corp. (jointly); Morgan Stanley & Co. **Proceeds**—To pay $40,000,000 of short-term notes and reimburse the treasury for outlays made to acquire property and for construction.

Eastern Rock Products, Inc. (1/3-6)
Dec. 10 (letter of notification) $295,000 15-year sinking fund first mortgage bonds. Price, par. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Purpose**—Refund of $295,000 first and refunding mtge. bonds.

Ferro Enamel Corp., Cleveland, Ohio (1/13)
Sept. 17 filed 69,590 common shares ($1 par). **Offering**—To be offered for subscription by stockholders of record Dec. 29 in ratio of one additional share for each four shares held. Rights expire Jan. 12. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes.

● **Fidelity Acceptance Corp., Minneapolis, Minn.**
Dec. 21 (letter of notification) 8,400 shares of class D preferred stock (par $25). Price, par. No underwriter. For additional working capital.

● **Frito Co. of Southern Ohio, Cincinnati, O.**
Dec. 23 (letter of notification) 475 shares of preferred (par $100). Price, par. No underwriter. For corporate purposes.

● **Gaylord Beck & Sons, Inc., St. Johns, Mich.**
Dec. 23 (letter of notification) 65,000 shares of preferred stock (par $1). Price, par. No underwriter. To stabilize company's accounts and notes payable.

● **Group Securities, Inc., Jersey City, N. J.**
Dec. 20 filed $5,000,000 shares of various classes of Group Securities Inc. shares. To be issued in several classes listed in the registration statement as selected by investors at their respective market prices. **Underwriter**—Distributors Group Inc.

Gulf States Utilities Co. (1/11/49)
Dec. 9 filed competitive bidding of $15,000,000 20-year debentures and a maximum of 280,000 shares of common stock (no par). **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (debentures); Stone & Webster Securities Corp. (both); Lehman Brothers (debentures); Merrill Lynch, Pierce Fenner & Beane and White, Weld & Co. (jointly on debentures); Merrill Lynch, Pierce, Fenner & Beane and Lehman Brothers (jointly on stock); Salomon Bros. & Hutzler and Union Securities Corp. (jointly on debentures). **Proceeds**—For general corporate purposes, including the payment of present short-term notes of $6,000,000 and the financing of a portion of its 1949 construction costs. Expected about Jan. 11.

● **Horwood Lake Gold Mines Corp., N. Y. (1/12)**
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Hotelevision, Inc., Long Island City, N. Y.
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation. Expected early in Jan.

● **Humphryes Manufacturing Co., Mansfield, O.**
Dec. 20 (letter of notification) 4,500 shares ($10 par) stock. **Price**—$22 per share. **Underwriter**—Robert Garrett & Sons, Baltimore, Md.

● **Jersey Central Power & Light Co. (1/25)**
Dec. 22 filed $3,500,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp.; Salomon Bros. & Hutzler. **Proceeds**—For construction or improvement of new facilities and betterments of existing facilities. Expected about Jan. 25.

Koppers Co., Inc., Pittsburgh, Pa. (1/11)
Dec. 15 filed 400,000 shares ($10 par) common. **Underwriter**—The First Boston Corp. **Proceeds**—To retire the balance of the company's 4% purchase money mortgage bond and to pay the balance of the purchase price on a blast furnace and coke plant. Part will be used to expand plants and reduce indebtedness. Expected Jan. 11 depending on market conditions.

● **Lake Drive Apartments, Inc., Palm Beach, Fla.**
Dec. 22 filed 1,000 shares of common stock (par $10). **Underwriter**—Pease & Elliman, Inc., will sell the shares for the account of Louis Cowan. **Price**—$392 per share. **Business**—Operator of cooperative apartments.

● **Leiffer Collating Machine Corp., Forest Hills, New York**
Dec. 24 (letter of notification) 750 shares of class A voting common stock (par $100) and 1,000 shares (nonvoting) class B common stock (par $100). To be offered in units of three class A and four class B shares at $700 per unit. **Underwriting**—None. Completion of designing and actual production of collation machine.

● **Liquid Freeze Corp., Reno, Nev.**
Dec. 20 (letter of notification) 200,000 shares of nonassessable common (par $1). **Price**—Par. **Underwriter**—Milton Al Nevraumont. To establish agencies, and finance inventories and working capital.

● **Miller Manufacturing Co., Detroit, Mich.**
Dec. 20 (letter of notification) 2,260 shares ($1 par) common. **Price**—$4.25 per share. **Underwriter**—George A. McDowell & Co.

Mississippi Power & Light Co.
Nov. 30 filed $7,500,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Equitable Securities Corp. and Shields & Co. (jointly). **Proceeds**—To finance in part company's construction program and other corporate purposes.

Mississippi River Fuel Corp.
Dec. 21 filed 146,700 shares of common stock. **Underwriter** — Union Securities Corp. **Proceeds** — To selling stockholders. These shares were purchased from Standard Oil Co. (New Jersey) in July 1948 by a group of investment houses headed by Union Securities Corp. Firms in the group of selling stockholders, in addition to Union Securities Corp., are Kuhn, Loeb & Co., Stone & Webster Securities Corp., White, Weld & Co., A. C. Allyn and Co., Inc., Equitable Securities Corp., John W. Clarke, Inc., Dewar, Robertson & Pancoast, and Walker, Austin & Waggener. **Business**—Corporation, which was organized in 1928, owns and operates a natural gas pipeline system extending from northern Louisiana to the Greater St. Louis area. Of the remaining 508,520 shares of common stock outstanding, all but 3,320 shares are owned by United Gas Corp., Columbian Carbon Co. and United Carbon Co.

● **Moore Plow & Implement Co., Greenville, Mich.**
Dec. 21 (letter of notification) 75 shares of 6% cumulative preferred stock (par $100). Price, par. No underwriter. To build up and maintain an inventory of small farm tools and supplies and for more liquid assets.

● **Morehouse-Gorham Co., Milwaukee, Wis.**
Dec. 23 (letter of notification) 1,469 shares of 6% cumulative convertible preferred stock (par $50). Price, par. **Underwriting**—None. Revision, modernization and preparation of series of courses and lessons for Episcopal Church Schools, etc.

● **Northwest Smelting & Refining Corp., Winnemucca, Nev.**
Dec. 24 (letter of notification) 100,000 shares of common and 200,000 shares of preferred. Price, par for each or $1 per share. No underwriter. For construction of smelter.

● **Nutrine Candy Co., Chicago, Ill.**
Dec. 21 (letter of notification) 800 shares ($1 par) common stock. **Price**—About $6⅛ per share. No underwriter. For a donation to certain charitable groups.

● **Pathe Industries, Inc., New York**
Dec. 21 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriters**—Blair & Co., Inc.; Allen & Co.; Auchincloss, Parker & Redpath. Working capital.

● **Pennsylvania & Southern Gas Co.**
Dec. 22 (letter of notification) $25,000 first lien and collateral trust bonds, series D (non-convertible). Price, par. **Underwriter**—Bioren & Co., Philadelphia. Reimburse treasury for advances to subsidiaries.

● **Pepsi-Cola Bottling Co. of Washington, D. C.**
Dec. 21 (letter of notification) 31,500 shares (10¢ par) common stock to be sold to public at $3 per share; 40,000 shares to be offered to trade accounts; 27,500 shares to be offered on behalf of a stockholder at $3 per share and 10,000 options at 1¢ per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. For working capital and payment of taxes.

Public Service Co. of Indiana, Inc.
Dec. 21 filed $12,000,000 first mortgage bonds, series H, due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Proceeds**—For construction costs.

● **Public Service Co. of New Mexico**
Dec. 28 filed 15,000 shares ($100 par) cumulative preferred stock. **Underwriter**—Allen & Co., New York. **Proceeds**—For construction and to increase general funds.

● **Reserve Supply Corp. of Long Island**
Dec. 21 (letter of notification) 1,000 shares of preferred stock (par $100). Price, par. **Underwriting**—None. Additional working capital.

Rohm & Haas Co., Philadelphia, Pa. (1/17/49)
Dec. 2 filed 15,816 shares of 4% cumulative preferred stock, series "A" (par $100) and 197,697 shares of common (par $20). Offering being proposed by U. S. Attorney General, Office of Alien Property Custodian. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include Kuhn, Loeb & Co.; Lehman Brothers, and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co., and Drexel & Co. (jointly); A. G. Becker & Co., and Union Securities Corp. (jointly). An additional 5,410 shares of preferred and 67,627 shares of

(Continued on page 42)

NEW ISSUE CALENDAR

January 3, 1949
Eastern Rock Products, Inc. ---------------- Bonds

January 4, 1949
Illinois Central RR., Noon (CST) --- Equip. Tr. Ctfs.
Missouri-Kansas-Texas RR., Noon -- Equip. Tr. Ctfs.

January 6, 1949
Chesapeake & Ohio Ry., Noon ----- Equip. Tr. Ctfs.

January 11, 1949
Chicago Burlington & Quincy RR. -- Equip. Tr. Ctfs.
Gulf States Utilities Co. --------- Debs. & Common
Koppers Co. -------------------------- Common

January 12, 1949
Horwood Lake Gold Mines Corp. ------ Capital Stock

January 13, 1949
Ferro Enamel Corp. -------------------- Common

January 17, 1949
Rohm & Haas Co., 3:30 p.m. (EST) --------- Stocks

January 20, 1949
Nashville Chattanooga & St. Louis RR. - Eq. Tr. Ctfs.

January 25, 1949
Jersey Central Power & Light Co. ----------- Bonds

January 27, 1949
Maywood Chemical Works, 1:30 p.m. (EST) - Stocks

(Continued from page 41)

common are included in the registration but they are not being offered at this time because of a pending suit for return of these shares under the Trading with the Enemy Act. Registration statement effective Dec. 13. **Bids**—Bids for purchase of stocks will be received at Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3:30 p.m. (EST) Jan. 17.

● **Sherwood & Roberts, Inc., Walla Walla, Wash.**
Dec. 23 (letter of notification) 2,450 shares of 5% non-voting preferred (par $100). Price, par. No underwriter. For reduction of bank notes.

Southern Oil Corp., Jackson, Miss.
Oct. 8 filed 1,500,000 shares of common stock (par 1c) of which 1,350,000 shares will be sold by company and 150,000 shares by W. G. Nelson Exploration Co. **Price**—$1 per share. **Underwriter**—J. J. Le Done Co.; Petroleum Equities Corp., New York. **Proceeds**—For working capital and general corporate purposes.

Southern Union Gas Co., Dallas, Tex.
Dec. 16 filed 107,430 shares ($1 par) common stock. **Offering**—To be made to holders of outstanding stock of record Jan. 3, on basis of one new share for each 10 shares held, plus the privilege of subscribing for additional shares not purchased by other stockholders. **Underwriting**—None. **Proceeds**—For construction and betterments.

Southwestern Investment Co.
Nov. 12 filed 33,880 shares (no par) common stock. **Underwriters**—Schneider, Bernet & Hickman; G. H. Walker & Co.; Dewar, Robertson & Pancoast; Underwood, Neuhaus & Co. **Offering**—Offered for subscription by stockholders at $16.75 per share in ratio of one new share for each two shares held. Rights expire Dec. 24. **Proceeds**—To increase working capital.

Taylor Food Co., Raleigh, N. C.
Dec. 17 (letter of notification) 17,000 shares ($1 par) common stock, of which 7,000 shares would be sold at $1.12½ and 10,000 shares at $1 per share. **Underwriter**—Griffin & Vaden, Inc., Raleigh, N. C. For additional working capital.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher. Pierce & Co., Inc., Dallas, Texas. **Proceeds**—For general corporate purposes.

● **United Funds, Inc., Kansas City, Mo.**
Dec. 20 filed $12,000,000 periodic investment plan certificates, to acquire United Accumulative Fund Shares and 100,000 shares of United Accumulative Fund Shares, to be offered at market (about $984,000). **Proceeds**—For investment. **Underwriter**—Herrick, Waddell & Reed, Inc.

● **United States Television Mfg. Corp., New York**
Dec. 23 (letter of notification) 1,000 shares common stock (par 50¢). **Price**—$2.25 per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. Working capital.

Waukesha (Wis.) Motor Co.
Dec. 7 filed 200,000 shares of common stock ($5 par). **Offering**—To be offered to stockholders of record Jan. 3 at rate of one new for each two shares held at $10 per share. Rights expire Jan. 24. **Underwriting**—Company will pay fees to selected investment dealers for securing the exercise of subscription warrants. Robert W. Baird & Co. Inc. will be dealer-manager. **Proceeds**—To carry possible increase of accounts receivable and inventories and to provide for plant improvement.

● **Westcraft Manufacturing Co., Los Angeles**
Dec. 23 (letter of notification) 15,000 shares of common stock (par $10). Price, par. Charles A. O'Hanlon, Los Angeles. Plans to organize this company to acquire the assets of Westcraft, Inc. **Underwriting**—None.

● **William Scott Moore, Inc., New York**
Dec. 28 (letter of notification) 4,000 shares of 6% preferred stock (par $10) and 4,000 shares of common stock (par $1). **Price**—$12.50 per unit. **Underwriting**—None. Working capital.

● **Winona Paperbox Co., Reno, Nev.**
Dec. 21 (letter of notification) 60,000 shares of common stock. **Price**—$1 per share. No underwriter. To retire indebtedness, purchase additional machinery and equipment and provide operating funds.

Prospective Offerings

● **American Light & Traction Co.**
Dec. 27 United Light & Railways Co. filed a proposal with the SEC for sale to its common stockholders of 634,667 shares of common stock of American Light & Traction Co. The 634,667 shares representing about half of Railways' holdings, are to be offered for sale at $12 a share to Railways' stockholders of record on or about Jan. 24, 1949, at the rate of one share of American Light common for each five shares of Railways' common. The Railways proposes to apply the proceeds of the offering, estimated at $7,600,000, toward payment of its bank notes, expected to be outstanding in the amount of $12,250,000 as of Dec. 31, 1948.

● **Central Illinois Public Service Co.**
Dec. 16 reported company plans the sale of $10,000,000 bonds in March. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Lehman Bros.; Kuhn, Loeb & Co.; Glore, Forgan & Co.; Blyth & Co., Inc.; Kidder, Peabody & Co.; Smith, Barney & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

● **Chesapeake & Ohio Ry. (1/6)**
The company has issued invitations for bids to be received by noon Jan. 6 for $7,000,000 equip. tr. certificates. The certificates will be dated Jan. 15, 1949, and are to mature in 10 equal annual instalments from Jan. 15, 1950, to Jan. 15, 1959. Proceeds from the offering will finance not more than 80% of the purchase price of new equipment with an estimated cost of $8,790,432. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Chicago Burlington & Quincy RR. (1/11/49)
Company expected to sell $4,320,000 equipment trust certificates early in January. Probable bidders: Halsey, Stuart & Co. Inc., Harris, Hall & Co. (Inc.), Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly). Sale expected about Jan. 11.

● **Chicago Rock Island & Pacific Ry.**
The company may possibly refund its $26,500,000 first mortgage 4% bonds and $35,000,000 of income 4½s through sale of a new issue in the amount of $50,000,000, according to H. Hentz & Co. in its most recent bond letter. The firm said: "The road is expected to continue its debt reduction policy and to undertake the refinancing of its two bond issues when conditions permit. In a moderately improved bond market, it should be possible for the system to sell $50,000,000 of fixed interest mortgage bonds on a 3½% basis, thereby reducing total requirements to about $2,500,000 including lease rentals and equipment interest.

● **Dallas Power & Light Co.**
Dec. 16 reported company has plans under consideration for sale, probably in February, of $10,000,000 in new bonds. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Lehman Brothers; Union Securities Corp.; Kidder, Peabody & Co.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane (jointly); Equitable Securities Corp.; Salomon Bros. & Hutzler.

● **Duke Power Co.**
Dec. 28 reported investment bankers were forming groups to bid for a possible public offering by company of $40,000,000 first mortgage 30-year bonds. Company's original plan was to place the new bonds privately with institutional investors but there is a possibility the FPC may order public bidding. Possible bidders include: Morgan Stanley & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.

● **Hughes Tool Co., Houston, Tex.**
Dec. 29 reported negotiations under way for sale of company by Howard Hughes to several members of company's management and a group of New York investment bankers for a sum reported in neighborhood of $143,000,000. It is further reported that partners in Dillon, Read & Co. Inc. are involved in the current negotiations.

● **Illinois Central RR. (1/4)**
Company will receive bids up to noon (CST) Jan. 4 for the purchase from it of $6,400,000 equipment trust certificates, series BB, dated Jan. 1, 1949, and due $320,000 semi-annually July 1, 1949-Jan. 1, 1959. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., and Lehman Brothers (jointly).

● **International Great Northern Ry.**
Jan. 13 Federal Court will hold hearings on petition of trustee, Guy A. Thomson, for authority to issue $1,870,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harris, Hall & Co. (Inc.), Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Maywood Chemical Works (N. J.) (1/27)**
Bids for the purchase of 6,930¼ common shares (no par), 56,562⅕ shares of participating preferred stock (no par) and 8,081 shares of cumulative preferred stock (no par), constituting 23.10%, 29.28% and 32.85%, respectively, of the stocks, will be received up to 1:30 p.m. (EST) Jan. 27 at office of Alien Property, 120 Broadway, New York. The company itself has formally agreed to submit a bid of $847,500 for the stock.

● **Missouri-Kansas-Texas RR. (1/4)**
Company will receive bills up to noon Jan. 4 at its office in St. Louis for the purchase of $1,400,000 equipment trust certificates, series 1949, dated Feb. 1, 1949 and due $60,000 semi-annually Aug. 1, 1949-Feb. 1, 1964. Probable bidders include: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co., and Lehman Brothers (jointly); Freeman & Co.

Nashville Chattanooga & St. Louis RR. (1/20)
Dec. 13 reported company plans the sale of $4,320,000 equipment trust certificates, series E, maturing serially in 1 to 15 years. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.). Expected about Jan. 20.

● **St. Louis, Brownsville & Mexico Ry.**
Jan. 13, Federal Court will hold hearings on petition of trustee, Guy A. Thomson, for authority to issue $1,870,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

U.S. Cannot Supply World Forever

(Continued from page 15)

everyday trade, rules that they would rigidly adhere to in their personal affairs, by continuing to pour out to a grasping but ungrateful world the fruits and resources of their own fellow countrymen? How can heavier taxes be imposed and reimposed upon an overburdened public who can see those hard earned tax dollars being poured down a foreign rat hole? No government diadem can justify a public servant in following a policy in opposition to the fundamental principles of honest trading, give and take and mutual welfare.

The very act of giving, whether outright or under the guise of forgetable loans, is a delicate operation. It frequently reacts unfavorably upon both parties. It lulls the recipient into an apathetic state of further dependence. It drains the resources of the giver and lessens his own usefulness. But worse than that, it magnifies the social differential between them. That is what is happening here from our exalted attempts to set ourselves up as an inexhaustible fountain head to supply money, food, and supplies to the depressed of the whole world, and by those overly generous but unbusinesslike measures creating a kind of synthetic prosperity based upon our own stupidity. The greater our heralded willingness to give, the more our gullibility becomes evident to some other countries, who stretch out one hand for our gratuities and hold their nose with the other, and the more greedy, corrupt and unabashed their demands become. There was deep rooted philosophy in the way that Abraham Lincoln turned down his shiftless half-brothers' request for a loan of eighty dollars, "If I should clear you now (of debt) next year you will be just as deep in as ever." Some of our foreign "loans" seem to echo this blunt statement.

Right now our high officials are considering how many more billions of our precious assets are to be poured into the insatiable maw of China, whose gracious and brilliant Lady is here charming us with her requests for greater generosity. Every dollar that we give, every gun that we ship, every Marine that we send to China is another engraved line on an avowed declaration of another war, a war that will again require not just a two ocean navy but a two world army as well.

If this country has no more guts than to adopt the million-dollar-a-day air lift into Germany and let it run on quite indefinitely rather than to call Russia's bluff and penetrate her atrocious road and rail blockade of Berlin, how can we hope to halt the red swarms which she is backing from completing their triumphant march into southern China.

What would be gained if we did? Every country involved is still dragging the shackles of the last war. Look at the mess that we, the supposed victors, are in today, our dollars reduced to a third of their former value, our national debt so big that we have lost all knowledge or concern over it. Another operation of the same kind, however "successful," and the patient might collapse to the point where it would take a basket of money to buy a basket of bread. Then too if our economic blunders were paralleled by military ones, our leaders in both fields, who are now clamoring for men and materials to stoke our war machine, might find themselves in similar straits to Goering and Tojo, who by the fortunes of war were caught on the short end of the stick or rope.

It is not easy nor very tactful for an ordinary citizen-businessman to criticize those in high places who may be doing the best they know how. But sometimes that is not enough either with a workman or a diplomat. We pay off on results. Criticism may have been withheld too much partly because the whole plan for the revitalizing of Europe has been so glamorized with an icing of synthetic patriotism that even a six-generation American hesitates to take issue for fear of being branded as a colleague of Bridges. These real Americans are getting increasingly resentful of a foreign policy so wastefully extravagant as to endanger our own business stability. It may become necessary sometime to lift a line from the Sultan's declaration of "Turkey for the Turks."

British Housing Is Planned Chaos

(Continued from page 10)

in a satisfactory condition in Britain. But there is something worse that has now been imposed upon the country, and that is the Town and Country Planning Act of 1948. Now the purpose of this Act is to get complete control of all land. And I'll tell you how it works. I'll give you a typical example.

Shortly after the war, a man with his gratuity and a little other money which he had saved bought a plot of land for a house. It was just a plot of land which you so frequently find between other houses on an estate which is being developed, and he paid what anybody would regard as a proper price, which was £200, for this plot measuring approximately 150 feet deep and 35 feet wide. His purchase was quite a satisfactory one.

Now comes along the authorities under the Town and Country Planning Act, the bureaucracy which is killing Britain. And this is what they do. They instruct their district valuers, which is another government department, to make a valuation, and the valuation has to be made under the heading of present use value. Well, for this particular site obviously its only useful purpose was a building plot. But the district valuer puts a price under the heading of present use value of £6. And then the central landlord under the Town and Country Planning Act decides that the market value of that site is £200 which, as you will see, confirms the price the man paid.

But the purposes of this decision putting £200 as the current market value on the site is for the purpose of collecting what is known under the Act as a "development charge." So they demand from this demobilized soldier a development charge of £194. So you see that in addition to his having paid the legitimate market price, he has a further sum of £194 to pay as a development charge, making the total value of that land £394.

Well, gentlemen, I could go on giving you examples similar to this one to show you that although land is not nationalized, the building industry is not nationalized, but in view of special acts of Parliament, and in view of statutory orders and regulations, the whole of our land and the whole of the house-building industry might just as well be nationalized.

Now, as we know, we are all concerned with the housing of the people. And in Great Britain, up to 1914, municipal housing provided just under 2% of the total housing built. Now this was not very much. In America you have had a similar experience.

No Shortage Under Private Enterprise

But the point I want to make is this. Under private enterprise building, there has never been a shortage of homes for the people. It was not until the government at home, in 1910 under the late Lloyd George, commenced to interfere with private interest and private property that there has been a shortage of homes. And the greater the interference (and this is what the records show in Great Britain), the less number of houses are built.

Socialists realized in Great Britain some years ago that the homes of the people were very fertile ground to spread their propaganda, and more and more public housing was undertaken. Insofar as Great Britain's experience is concerned, such housing has always been more costly to build than similar houses provided by private enterprise.

The latest records taken out before the last war show that private enterprise could build at 22½% less cost than public housing. This excessive cost is attempted to be levelled out by the payment of a subsidy of £16 10s. from the state and £5 10s. from the local authority, an annual charge towards the rent of no less than £22 per annum, and this continues for a period of 60 years.

If private enterprise in Great Britain, and the same would apply in the USA, was given the same facilities to finance as that given to local authorities for public housing, they could build better houses, more quickly, and at no cost to the state. But, of course, this would defeat the plan of socialism because it is through the home that control and regimentation would become more evident as time goes on.

The Minister of Health, Mr. Bevan, who is one of the greatest enemies of private enterprise in Britain, will allow local authorities only to build for letting. He knows as well as we do, that if a man and his family are occupying their own home purchased through a building society, or a savings bank in your country, that such men will have a stake in the country, and are less likely to support socialism.

Now, I conclude by issuing a warning. One of the purposes of my visit to America is to outline how Britain has fared under a socialist government. The short account I have been able to give you should be sufficient to be a warning that America must be alert. She must organize herself. Otherwise private enterprise in America will be exposed to destruction as it is in Great Britain.

Our Reporter's Report

From all indications the early part of the New Year is destined to find the rank and file of investment banking houses seeking ways and means of cutting down overhead and, at the same time, promoting efficiency in their organizations.

At any rate one of the largest of their number, far ahead of the pack in that respect, finds itself currently the center of no end of inquiry from among its competitors.

The latter, apparently casting their eyes over the year's operating results, are beginning to see the need for adapting more modern methods to their business.

The house in question came to that conclusion more than a year ago and since has been engaged in reshaping its entire organization. It has carried out a comprehensive program of branch office consolidation which has eliminated a number of such outlets and left the firm with only a series of regional units at major points from which its sales forces carry on their work.

Moreover, it has mechanized its clerical and statistical departments wherever possible in the interest of efficiency and economy and now has just about completed the task and is finding the results eminently satisfactory.

But, having been more or less the "guinea pig" in the operation which it feels competitors must, of necessity, follow, it naturally finds the latter, moving now only under the driving lash of necessity, more than willing to profit by its experience.

First Week of 1949

Except for one or two small railroad equipment trust issues, the final week of the current year passes without any new corporate undertakings of consequences reaching market.

Since that was the condition expected to prevail there was little or no disappointment. Much the same situation faces the underwriting fraternity in the first week of the new year.

There are three equipment trust issues on tape, namely those of Chicago, Milwaukee, St. Paul & Pacific RR., the Illinois Central and the Chesapeake & Ohio, but nothing in the form of corporate securities definitely in sight.

Should market conditions prove "right," however, it is possible that two substantial new equity undertakings could reach market.

Two Possibilities

A prospective offering of 600,000 shares of no par common stock of Southern Indiana Gas & Electric Co.; in registration since late October, should conditions prove favorable, could move to market readily.

A negotiated undertaking, the stock is to be sold for the account of the Commonwealth & Southern Corp., along with 75,000 shares additional for the account of the company itself.

Meanwhile Koppers Co. has in registration 400,000 shares of additional common which will reach the offering stage when the market is right and put the issuer in funds to retire the balance of its outstanding purchase money mortgage bonds and pay off the balance of the cost of a new blast furnace and coke plant.

Odds and Ends Around

Investment bankers probably can make good use of any further breathing spell that develops to clear away the bits and pieces still remaining from new offerings of recent months.

There is reportedly not much around in the way of unsold securities, but it is known that remnants of a few recent issues are around, including Public Service Electric & Gas Corp.'s bonds, the Allen Wood Steel 5s of 1963 and the Rochester Telephone 4s of 1963.

Big Stock Issue

Latest plans of Pacific Telephone & Telegraph Co., may be the harbinger of intensified effort by the companies in the Bell System to obtain part of their needed funds through the medium of equity sales.

The big Coast company plans to offer 828,920 shares of common to its holders at par on a date yet to be fixed. It would be offered in the ratio of one new share for each five common or preferred now held.

Necessary registration to cover the projected $82,900,000 undertaking will be filed with the several agencies in due course.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—From now on the noises you will be hearing from Washington about housing will be loud and they will be confusing. At times they will suggest a brass band and a symphony orchestra rehearsing in the same hall. On the one hand Washington will talk "low cost" housing by which is meant housing which will be low in cost to the privileged poor and high in cost to the taxpayer. The noise on behalf of public housing and slum clearance will rise louder and louder until Congress comes to vote on a program of this character.

On the other hand Washington, and many of the same officials, will preach "lower cost" housing by private builders with private credit, except for the FHA insurance. This latter noise is just beginning to get under way and will rise to a crecendo just before the spring building season opens.

The propaganda campaign for the Taft-Wagner-Ellender subsidized housing bill is anticipated, of course. What is new is the campaign sponsored by Raymond Foley, administrator of the Housing and Home Finance Agency, to promote the private construction of privately - financed dwelling units at as low a cost as possible per unit.

Foley touched off the latter campaign in two recent meetings here. One was with representatives of the trade associations of private builders. The other was with trade associations of private mortgage lenders.

What Foley has in mind is to encourage the formation of a sort of building council in every important city, and certainly one in each of the 71 cities in which the Federal Housing Administration has an office.

These local committees are to be composed of contractors, landlords, material men, union labor, bank and building and loan men, and so on. The local committee has the job of sparking the idea locally in the community of getting housing built at a generally lower cost than it has been in the postwar era. The committee's job also is to try to break down the obstacles to lower cost housing construction that confront the particular community. Thus, for example, in one city the obstacle might be a shortage of skilled labor. In another community it might be some particularly flagrant quirk of the building code. In a third city the problem might be the absence of mortgage money. So the local committee will work on local problems, and incidentally can call up Ray Foley and ask for Federal technical help where necessary.

One motivation for the "lower cost" campaign is that the higher priced home market is turning sour, and building activity might let down if all parties concerned don't give a heave-ho to the lower cost idea. Another is that the government talk of encouragement to private initiative will provide a propaganda counter to the objection to public housing.

* * *

There has just come to light the word that the Department of Agriculture's private nation-wide lobby has come out flat-footed and 100% for mandatory price supports of 90% on just about every farm crop. Furthermore, the D. of A. organization also demands mandatory acreage and marketing controls, and a revision of the parity formula to boost it by the addition of the phenomenal rise in labor wages since prewar.

The organization in question is composed of representatives of the county Triple-A committees, the extension services, and other local committees sponsored by the Department. Secretary Charles F. Brannan called them into a conference in St. Louis recently. He in effect told them, "Boys, you tell us what you want done." They complied. What they want done would sink the government deep into the business of underwriting the high cost of food and an incalculable budgetary liability for price supports. The Department, which does not want to go quite so far in under-writing farm prosperity, is not happy.

And this "Production and Marketing Administration conference" is supposed to represent the views of two-thirds of the farmers of the country. One thousand farmers are reported to have attended the conference.

* * *

Only recently the Flanders subcommittee of the Senate Joint Economic Committee held hearings on industry's "huge" profits. In the course of the hearings industrialists were able to report that their absolute profits were high mainly because their unit production was so much greater than in any other recent "peacetime" era. Profits per sales dollar, the industrialists generally testified, were lower than in the prewar era.

Although no Congressional committee will ever likely put farmers on the witness stand to justify their profits, the Department of Agriculture, in a little-noticed report, has shed some light on this topic.

The average family-operated winter wheat farm produced a net return for the farmer and his family for their labor and management of 36 cents out of every dollar of gross income during the prewar years 1937-41, inclusive. In 1947 the return was 68 cents. For the family-operated commercial spring wheat farm the ratios for the two periods were, respectively, 35 cents and 51 cents.

Putting it another way the expenses for operating a winter wheat farm amounted to 50 cents of the dollar of gross income in prewar, and fell to 13 cents in 1947; for the spring wheat farmer, expenses were 44 cents and 15 cents, respectively. (The two figures, expenses and net income, do not add up to 100 cents, because the Department has no reliable estimates of investment capital returns and costs.)

Wheat, of course, shows a spectacular profit because mechanization has proceeded farther in wheat than in perhaps any other farm commodity. The average family-operated commercial winter wheat farm brought a net return of $1,210 in the prewar era, and $14,342 in 1947.

Next to wheat, the corn farmer and the farmer producing corn to feed to meat animals, showed the largest increases in net per sales dollar. Only cotton did not show a substantial rise in net per sales dollar.

* * *

Conservative, economy-minded members of the Hoover Commission on government organization are making a strong, last-minute bid to upset the unofficial compromise which the Commission is reported to have made on the scope of its report, originally due in a couple of weeks.

The compromise was to advocate no important measures proposing the curtailment of Federal functions, Federal activities, and the Federal payroll. Instead the Commission is proposing measures of better administrative and business management, whose economies, if any, will only show up in the course of a long period rather than immediately.

Originally the Commission planned to sail into the whole Federal establishment and recommend the lopping off of entire government functions on the theory that the Federal Government could not except in inflation times support a $40-billion establishment. It was also planned to recommend the return of various functions and activities to the states.

With the election it was decided that the political climate would lead to the complete ignoring of any report which recommended reducing subsidies and services for the pressure groups. So the Commission decided to concentrate on those proposals which would eventually promote economy through better business management.

Economy-minded members of the Commission, however, have been extremely irritated by this decision and are doing their best to upset it. They intend to keep right on trying with a set of proposals recommending drastic economies, and to try to get these voted as the recommendations of the Commission, up until the final day.

So far, however, it is said, the economy-minded group is outvoted.

* * *

The Hoover Commission's task force on Federal medical services will provide the opponents of the Federal Security Agency's campaign for a 10-year, $4-billion, Federal health aid program with probably their heaviest ammunition. The Commission's task force was careful to slant its publicly-issued report so as not to offer criticism to this program. Nevertheless, the opponents of Federal public health programs are gleeful over the "gross mismanagement" which the task force revealed in existing Federal health activities.

Among other things, the task force found that in the New York City area, four Service hospitals could be closed, reducing the requirements for medical officers by 80%, "yet at the same time a higher standard of service could be provided." The report found numerous instances of duplication and excess hospital facilities. "Compared with representative voluntary hospitals, patients with the same diagnosis stay in government hospitals two to three times as long," the report said at another point. The report made a devastating criticism of plans for veterans' hospitalization.

While the report was not slanted to provide opposition to the FSA propaganda for Federal hospital and health plans, the facts revealed will be picked up quickly by opponents of Federal health schemes.

* * *

There is a belief here that the reason for the surprising resistance of farm real estate prices to the downward trend is the fact that farmers do not want to sell. Farm real estate prices pushed through to a new peak of 177% of the 1912-14 average, during the four months ended Nov. 30. Although the rise was only two points in the index over four months, it amazed government observers. They have been anticipating since early in 1948 that farm real estate prices had reached their peak. During the latter part of the year, when it became clear that farm net income was turning downward, they anticipated a fall in the index.

While the real estate prices rose during the latter part of 1948, they did so on a volume which has been declining steadily this year. Farmers do not apparently want to sell. Why? Officials do not guess.

* * *

The Truman Administration may have instituted an obvious and long-delayed accounting reform in excluding tax refunds and similar items from both sides of the budget picture, but the net effect is to make it appear to the layman that government fiscally is not as big a thing as it was before the change in accounting was made.

Thus "expenditures," instead of being $40.6 billion as last officially forecast by the President for the current year, will be only $38.1 billion.

BUSINESS BUZZ

"That's the President of the corporation—they say he's quite a stickler for details!"